1935

Land accounts

Walter Mucklow

LAND
ACCOUNTS

MUCKLOW

AMERICAN
INSTITUTE
PUBLISHING CO.
INC.

LAND ACCOUNTS

WALTER MUCKLOW

LAND ACCOUNTS

BY

WALTER MUCKLOW C.P.A.
Member, American Institute of Accountants

Published by the

AMERICAN INSTITUTE PUBLISHING CO., INC.

NEW YORK, 1935

PRINTED IN THE UNITED STATES OF AMERICA
BY THE STRATFORD PRESS, INC., NEW YORK

PREFACE

It is now over twenty years since I first published some ideas relative to the accounts required in transactions in land, and, during that time, advances in accountancy and activities of business have been sufficient to warrant the recasting of numerous articles which have appeared and to add something from the experiences which have been gained.

The study of the real-estate business during a "boom"—when so-called "sales" amounting to millions of dollars were effected by individual firms between the rising and the setting of the sun—is something like examining an object through a high powered microscope: all details are magnified and there are found to be some conditions which require special examination or treatment.

On the other hand, the knowledge of accountancy has become so much more general in this country than was formerly the case that in a work of this character many details of bookkeeping may well be omitted.

However, the number of inquiries which I have received from those who were not accountants has induced me to describe certain records and methods in greater detail than if I were writing exclusively for members of my own profession.

No division of the subject has presented greater difficulties than that dealing with the relation of the income tax to real-estate accounts. Here we have to deal with arbitrary definitions, such as "fair market value", "closed transactions", "instalment sales"; we have to recollect the regulations affecting re-possessed property; we must consider the treatment of commissions, the method of calculating realized profits, the setting up of reserves for development and numerous other points.

One who is familiar with these matters can state the requirements of today, but the conditions of the future, even of the morrow, may be entirely different. This makes it impossible, in such a book as this, to deal fully with this important matter, for rulings doubtless will be changed while this is in the hands of the printer. At the same time, the subject is far too important to ignore; therefore, I have tried to call attention to the more vital principles involved; but the manner of applying these must depend upon the regulations of the treasury department which may be in force or upon new decisions handed down by the courts.

Every chapter in this book describes my personal experience, and I hope that the work may prove to be of assistance to brother practitioners and of use to all those who are concerned with the matters which it discusses.

WALTER MUCKLOW

Jacksonville, Florida,
January, 1935.

CONTENTS

CONTENTS

CHAPTER VII

CHAPTER VIII

CHAPTER IX

CHAPTER X

CHAPTER XI

CHAPTER XII

CHAPTER XIII

CHAPTER XXII

LIST OF FORMS

LAND ACCOUNTS

CHAPTER I

Introductory

1-1. In General.

The expression *Land Accounts* covers a wide field, for it may apply to tracts which contain hundreds of thousands of acres—the owners of which are now few in number; it includes the accounts relating to subdivisions on portions of which, often containing a fraction of an acre each, stand our homes in which so many are interested; and under the fallacious, but prevailing, rules of the treasury department it extends in some cases to the cemetery lot containing only a few square feet, to which nearly all will finally be conveyed.

1-2. On Values.

In common with all other accounts, land accounts are based on the cost or on something which, for the sake of convenience, is called "value", although the meaning of this word is stretched to include many different things, such as the "sale value", the estimated amount for which it is thought that the land might be sold; the "cost value" or amount expended on the property; the "investment value" or the amount on which it should yield a profitable return; the "replacement value" or the cost of replacing it at a stated time; its "depreciated value", which is some other value—such as cost value, or appraisal value, reduced by charges for depreciation; its "appraised value" which represents the opinion of some person as to its value for some specific purpose. Again, such values may depend chiefly upon what is on the surface, as in the case of forests, of orchards, or, in some cases, of the improvements which have been made on it; or upon what is under the surface, as in the case of mines; or on what is above the surface, as in the case of resorts dependent upon climatic conditions. Frequently the value depends upon a combination of all these fundamental conditions, coupled with others of secondary importance.

1-3. Purpose of This Book.

To deal with all these conditions in one book is impossible—that would require a library rather than a volume—and, probably, no one man lives who is competent to deal with authority on the variety of subjects involved. Therefore, it is intended to deal only with those matters relating to the land itself and to leave to others the treatment of resources or improvements to and the products of the soil itself.

The principles which I advocate are discussed in their appropriate places throughout the book, but in most cases examples of their use are further illustrated in chapter XXV—a manual of instructions.

1-4. During the lifetime of any one who has reached middle age, great changes have occurred. On one hand the federal and state governments and the numerous transportation companies have disposed of much of the acreage which they formerly held, causing a great reduction in the number of holders of large tracts; while, on the other hand, the passion for subdividing has become rampant, leading to an enormous increase in the number of those who are directly interested in land and the accounts relating to it. At the same time, throughout the United States, the knowledge of accounting has advanced greatly; the practice of it has spread widely, and the requirements of federal and state taxation have forced the business man to give it at least some recognition.

A consideration of these changed conditions, which become more apparent with each succeeding year, leads to the conclusion that the purpose of this volume will be served best if the treatment of the accounts of large tracts be dealt with lightly; that attention be given more particularly to the accounts concerned with smaller holdings, including subdivisions; while many of the details of bookkeeping which were formerly required may be omitted entirely.

1-5. Terms Used in Land Accounts.

While land is real estate, it is only one of the items included in the more comprehensive term and should always be shown separately from other items which may be included in any particular property.

Under the generally accepted definition of depreciation, land can not be depreciated—although it may be subject to depletion; it can not be lost or removed, except in such unusual cases as earthquakes, land slides or erosion; while all on the land is subject to some form of change. Therefore, when the acquisition of real estate is entered on the books, the value of each item included should be shown separately, e.g.

Real estate
    To Land
        Buildings
        Other improvements

Generally it is advisable to show the "other" items in detail, as their values may fluctuate: buildings depreciate, while orchards may appreciate. Another reason for this division of values is the necessity for showing the value of all insurable property in order to ascertain if sufficient fire insurance be carried.

1-6. Throughout this book a few expressions are used arbitrarily for the sake of clearness and uniformity, the principal of these being:

Contract—Implies any form of lien or agreement, except a mortgage, providing for the sale of land on any instalment plan—the title remaining in the grantor until payment is completed.

Time sale—Indicates any sale which is not for cash.

Sale—Is used to refer to the execution of any deed or of any agreement of sale, whether or not title is transferred when the "sale" is made.

Concern—The owner—proprietor or manager—is referred to throughout the volume as "the concern".

CHAPTER II

Organization

2-1. *As to Incorporation.*

Throughout this volume the proprietor is referred to as "the concern". In practice the great majority of tracts and subdivisions is owned by corporations, and this is here assumed to be the case. The limitation of personal liability, the continuity of existence, the greater facilities for the distribution of ownership and other minor reasons all tend to result in preference for the corporate form, but each case must be decided on its own merits. One of the points to be considered is the comparative effect of corporate or other ownership on the income tax of the individual owners, and this depends largely upon the extent to which those persons enjoy income from other sources. Local laws also must be considered, as many states impose taxes of various kinds on corporations, and if a concern has lands in several states, the question as to whether it should incorporate in one state, or in every state in which it has property, should receive careful consideration, for, in some instances, the taxes levied on foreign corporations—that is, concerns organized in another state—may be prohibitive, while the federal laws and regulations as to the filing of consolidated returns are at all times subject to violent changes.

2-2. *Internal Organization.*

A concern which is engaged in developing subdivisions on a large scale is usually divided into departments, such as the following:

- Management and executive
- Construction
- Sales department
- Accounting department
- Maintenance department

2-3. Coöperation.

Naturally, the interest of the accountant centers in the accounting department, but it is necessary to emphasize the importance of his obtaining and maintaining close contact with all departments, for the reports of all work must pass before him at some time. The management should give him the opportunity to discuss with the department heads those matters which are dealt with in this volume, and he should make himself conversant with the procedure of each branch. Frequently some employee will criticize the requirements of an auditor because he has not been told the reasons for such requirements, whereas, if he were shown the necessity or advantage of them, he would become an ally instead of a neutral or, even, an opponent.

2-4. This means that full coöperation is essential and can only be obtained if all concerned do coöperate, and the accountant of today must do his share in such work.

I well remember the time when salesmen hated the title of "auditor", for it reminded them of details they had been forced to observe without knowing why; I have also lived to see the time when a sales manager, in the height of a boom, has described the accountant as a "life-saver."

2-5. Accounting Department.

The accounting department is the only one which will be discussed here. It should formulate a complete system of accounts and should coördinate them with the requirements of all other departments. This is illustrated in chapter XXV.

In conjunction with the proprietors, the accounting department must decide upon the system which is to be followed, especially as to the requirements for income taxes. While some accountants may criticize the methods approved or required by the treasury department, those rules must be observed, and, in nearly all cases, they result in statements which may be accepted with safety and will satisfy the usual requirements of the proprietors.

CHAPTER III

The Acquisition of Land

3-1. There are five different ways in which title may be lawfully obtained.

A. By Gift or Bequest.

In the case of corporations gifts and bequests seldom occur, as usually some consideration, such as capital stock, is involved.

Gifts and bequests to persons are of common occurrence and their treatment in the accounts presents no difficulties. However, care should be taken to see that proper value is placed on such property when it is acquired, otherwise difficulties may arise in taxation when it is sold.

3-2. B. By Purchase.

Purchase includes the majority of transactions and, as stated in chapter IV, care should be taken to see that all items of cost are included.

3-3. C. By Exchange.

The exchange of properties is frequent and may or may not involve cash transactions. In any event, generally the clearest method of entering these on the books is by two entries. The property received should be entered as a purchase and the property given as a sale. Even if the values be equal and no cash be involved, similar entries should be made in order to form the basis for proper entries and cancellations on the property records.

3-4. D. By Recovery.

Acquisition by recovery includes foreclosure of mortgage, cancellation of contract or re-conveyance of property by a purchaser.

These transactions present no difficulties, but, as in the case of purchasing, care should be taken to see that all interest, taxes, legal and other expenses are included in the cost.

In such instances the treasury department draws a distinction between those cases in which title has passed to the purchaser and those in which title has been retained by the owner. These rules are too long to quote here and are subject to frequent changes and modifications, but care should be taken to see that the current regulations are observed.

3-5. E. By Agency or Trusteeship.

While neither agency nor trusteeship may convey title, either of them may cause the agent or trustee to act as owner and to take personal charge of the land. In either case the agent or trustee should open and maintain accounts fully and carefully, and in as much detail as if he were the owner.

3-6. General Requirements.

In every case where land is acquired, the accountant should see that the following points are covered:

1. There should be a complete written account of the transaction, giving description of the property and the improvements thereon, with particulars as to taxes, etc., and as to any future payments and any commitments which have been made.
2. All deeds, releases, tax receipts, title and fire-insurance policies and transfers should be examined and filed.
3. There should be either a title-insurance policy or an attorney's certificate of title.
4. Fire-insurance policies should be examined to see that the descriptions, amounts, attached clauses and assessments are in order.
5. Proper and complete entries should be made in the appropriate property records hereafter described.

3-7. Classes of Lands.

In this book, lands are divided into the three principal divisions which call for different treatment in the accounts. These are: 1. Wild lands, 2. City lots, 3. Subdivisions.

3-8. 1. Wild Lands.

Wild lands consist of land outside city limits and, in most states, are described as fractions of the standard United States township, consisting of 36 sections, each one a mile square and each containing 640 acres.

These sections are usually divided by continued halving or quartering, e.g., the NE¼ contains 160 acres, the NE¼ of the NE¼ contains 40 acres, and the NE¼ of the NE¼ of the NE¼ contains 10 acres.

On account of irregularities in the land, fractional sections frequently occur and the above descriptions are often mingled with descriptions by metes and bounds.

In some of the older states, wild lands form a portion of the original crown grants, issued by the English, Spanish or French governments, or they are divided into parishes, as in Louisiana, or the townships of New England. In such cases lands are described by metes and bounds.

3-9. While we are now concerned with land only, the accounts relating to wild lands are frequently so closely allied with other matters that these have also to be considered. Timber, mining and oil lands are outstanding examples. In the southern states it is usual to divide the value of pine land into three parts:

1. The turpentine rights, which are used first.
2. The value of the timber after having been "turpentined".
3. The soil.

Sound accounting, to say nothing of requirements of taxation, demands such divisions.

3-10. 2. City Lots.

City lots are lots or small tracts within a city, and one parcel may consist of a single lot or of a group of adjacent lots.

3-11. 3. Subdivisions.

The word "subdivision" is used to describe any parcel of land, in town or country, which is subdivided into lots for business or residential purposes.

3-12. 4. Cemeteries.

To this list there might be added cemeteries, but these require such special treatment that they are not considered in this volume.

Before leaving the subject of land acquisition, it is proper to emphasize the necessity of securing competent legal advice on all matters relative to title to lands. Failure to do so at the beginning of a transaction is, too frequently, the cause of heavy losses at the end.

3-13. Sites for Subdivisions.

Some readers may think that the selection of a site suitable for a subdivision lies entirely outside the field of accountancy, but the wise investor of today is acquiring the habit of regarding his accountant as an advisor for all his investments, and the modern practitioner should keep himself sufficiently well informed to be able to advise his clients about any business in which they may engage.

3-14. The selection of a site involves the determination of many factors, among which are the following:

1. The type of development for which it is suitable, e.g., for industrial workers, for salaried people or for wealthy residents.
2. The availability of adequate transportation facilities by rail, street cars, busses or private cars.
3. Its proximity to churches, schools or places of amusement appropriate for the class of purchasers.
4. The topographical characteristics and provision for suitable drainage, etc.
5. Its adaptability for beautification, parks, playgrounds, etc.
6. Its position in regard to the probable growth of the city on which it is dependent.
7. The availability of public service, such as electric current, water, gas, sewers and telephones.
8. The proximity to or provision for shops suitable to the community.
9. The possible encroachment or settlement by objectionable industries.
10. The taxes to which the property and future dwellers will be subject.

11. The possibility or probability of development of adjoining tracts, and especially of tracts lying between the proposed subdivision and the city, which would reap, without cost, the benefit of the proposed developments.

3-15. These items are suggestive only of matters to be considered. Probably this question of suitability has received the most careful and scientific study from the land-value insurance companies, which have placed it on an actuarial basis and use a list of over one hundred factors which they apply to sites on which they are engaged to report. (See chapter XVII.)

CHAPTER IV

Cost of the Property

4-1. Cost of Land.

The cost of a property consists of the following factors:

1. Purchase price: that is, the consideration paid and the obligations assumed. To these there may be added the cost of examining title, of attorney's opinion, of legal investigations and, possibly, of commissions.
2. Carrying charges, consisting of taxes and interest paid or accrued from the time of acquisition to the time when sales begin.

4-2. Cost of Improvements.

Where land is conveyed to the concern by the persons who own that concern, certain complications may arise in determining the "cost"—in fact, there may be two costs to be considered, namely, the original cost to the vendors and the cost to the concern. A full discussion of these matters is beyond my present scope, and each case should be considered in its relation to the current revenue act and the regulations applying thereto; but it is well to suggest some of the points to be considered.

A typical example of this class of question is found where one or more persons own property, bought at a low figure, and convey it to a corporation, which they control, in exchange for capital stock bearing a face value far greater than the original cost to the transferrors. In such cases the revenue acts and regulations for years past have required that, when computing profits on the sale of such lands by the corporation, these profits shall be based on the original cost to the transferrors and not on the cost to the corporation. The matter is dealt with in section 113 of the revenue act 1932 and in regulations 77 art. 598, etc. In such cases, it is usual to show the cost to the corporation at the higher figure, and if this be used in preparing the profit-and-loss account of the concern, a separate statement will be required for income-tax purposes. Therefore, it is incumbent upon the accountant to make proper provision for these conditions.

It is recommended that the figures used in the books be such as will be acceptable to the treasury department; otherwise much argument and labor may be involved.

4-3. Purchase-money Mortgages and Release Clauses.

It is a common practice for the owner of the land, or for the holding company, to convey title to an operating company, taking for a portion of the payment a mortgage, which contains a "release clause", whereby the mortgagee undertakes to release lots covered by the mortgage upon payment of stipulated amounts—sometimes at a uniform price throughout the property, and sometimes at different prices set forth in the instrument. Such agreements should be clearly shown on the records, especially if the agreement applies to only a portion of the property. In that case the lot records of all kinds should show those lots to which the agreement applies. Payments for releases should be posted to a separate account in the general ledger, as they reduce the outstanding liability, and particulars may be required at any time.

4-4. Cost of Development.

The site having been selected, it is usual to have made a careful survey from which are prepared a surface plat and a topographical map. On the former are indicated the roads, parks, all spaces reserved for special purposes and the blocks or lots which it is intended to offer for sale. On the latter are indicated the grading required and any drainage which may be necessary.

4-5. It is difficult to lay down any rules as to the cost of development, for in my experience such work has stretched from simply staking off lots in a bare field, where the approaches were left in their natural conditions, to the formation of a beautiful subdivision including bulkheading on water frontage, large quantities of filling, grading, and provided with sewers, electric current, gas and water, the building of substantial roads and sidewalks, the creation and planting of numerous parking spaces and even artificial lakes.

4-6. While it is impossible to give any fixed schedule of accounts which may be required in a given instance, the following list is taken from actual procedure in the case of a large and elaborate subdivision where the construction was in charge of highly trained engineers, accustomed to rendering accurate and detailed accounts of their work. They not only agreed to but did maintain the following schedule of accounts:

Accounts	*Sub-accounts*
Sewers	Labor
	Tools
	Materials
Street paving	Labor
	Tools
	Materials
Concrete work	Labor
	Tools
	Materials
Curbs and sidewalks	Labor
	Tools
	Materials
Bulkheading	Labor
	Tools
	Materials
Electric construction	Labor
	Poles
	Wires
	Conduits
	Materials
Clearing	Labor
	Tools
	Wood cutting
Grading streets	Labor
	Tools
Filling lots	Labor
	Tools

Accounts	*Sub-accounts*
Parks and parkways	Labor
	Tools
	Trees and plants

4-7. *Overhead Expense and Interest.*

The cost of construction may include, in addition to the direct cost of the work performed, the cost of management during the time construction continues; and this, in turn, may include the incidental expenses necessary to conduct the business.

Interest on borrowed money which has been paid, or has accrued, during the period of construction is also a proper charge against the cost.

4-8. *Equipment.*

If the concern do its own work of construction, it may acquire a considerable amount of equipment, and in that case a proper record should be maintained. However, this is necessary only in the case of a large development, and the record may be kept on one of the stock forms for the purpose offered by stationers. These forms show all particulars, including a description of the equipment, cost, date of acquisition, depreciation charged, etc.; one page being devoted to each piece of equipment. In such cases it is often convenient to arrange the equipment ledger so that all the equipment of a certain kind, or used for special work, may be grouped together, e.g., floating equipment, motor equipment, grading equipment, etc.

4-9. *Reserve for Uncompleted Developments.*

It frequently happens that the development is not finished when the property is first put on the market. In that event it is necessary to provide for the unexpended portion of the estimated total cost, in order to ascertain the cost of each lot when work is completed.

The company should obtain from the engineers carefully prepared, detailed estimates of all the unfinished work which it is proposed to do. The accountants should check these estimates carefully with the owner and the engineers, to satisfy themselves that they are as correct as possible, and they should, of course, include some item for contingencies.

4-10. The entry bringing these amounts upon the books should give the total for each class of items included and should refer to the engineer's estimate, or other authority, which should be carefully preserved.

Such estimates always include an item for "incidentals", and it is a great convenience if the amount shown therefor is such a sum as will bring the total cost to an exact percentage of the total basic sales price. For example, if the total estimated cost when completed is $355,000 and the total basic sales price is $3,600,000, it would be wise to increase the "incidental" item by $5,000, making the total cost $360,000 or ten per cent of the total basic sales price. If this can be done, much labor will be saved when calculating the cost of individual lots, and if some error result it will be so small a percentage of the profits that, in almost every case, it will be negligible.

4-11. When construction is completed, it may be found that the total cost differs somewhat from the estimates which entered into the reserve for improvements. If the difference be small, probably no one will criticize its inclusion in the profit-and-loss account. If it be of such size as materially to affect the cost, profits already shown on the books may be increased or decreased by a percentage ratio, depending on that which exists between the estimates and the costs. For example, let us suppose that the cost of acquisition was $120,000 and the estimate for improvements was $240,000, which I shall call normal, and let us suppose two variations, (a) where the expenditures exceeded the estimates, and (b) where a balance was left in the reserve account. Sales amounted to $100,000. Then the following results would be obtained:

	Normal	Over-expended	Under-expended
Cost of acquisition	$ 120,000.	$ 120,000.	$ 120,000.
Improvements cost	240,000.	330,000.	180,000.
Total cost	360,000.	450,000.	300,000.
Total basic sale price	3,600,000.	3,600,000.	3,600,000.
Ratio cost to basic price	10%	12½%	8⅓%
Sales made	100,000.	100,000.	100,000.
Cost	10,000.	12,500.	8,333.33
Profit	$ 90,000.	$ 87,500.	$ 91,666.67
Difference from normal	0	-2.78%	-1.85%

In case (a) the recorded gross profit should be reduced 2.78%, and in case (b) it should be increased by 1.85%. If the work were completed in the first year, no objection could be raised to showing the revised profits; but if the work extended over a number of years objection to filing amended returns might be raised, especially if the taxable profits were reduced thereby.

4-12. Tax Requirements regarding Reserve for Improvements.

Before setting up a reserve-for-improvements account on the books, the current regulations of the treasury department should be carefully studied. Until recently, these regulations permitted an owner to include in the cost of the property the unexpended amount necessary to bring the proposed development to completion, and no limit was placed on the time in which such development was to be completed.

The rule authorizing this procedure is in O.D. No. 567 in C. B. 3, December, 1920, which reads as follows:

"Profit realized on the sale of lots, the selling price of which includes the cost of certain development work already made or to be made in accordance with the contract of sale, should be based on the cost of the land to the vendor, or its fair market value as of March 1, 1913, if acquired prior to that date, plus the actual and estimated future expenditures for development. If the estimated future expenditures should be subsequently ascertained to be incorrect, amended returns should be filed as the basis for an adjustment of the tax for the years affected. The cost of such development having been taken into consideration in determining profit, expenditures for this purpose can not be deducted from gross income in subsequent returns."

It was found that frequently—especially after the subsidence of a boom—such reserve items remained on the books and were continuously included in the cost, although the full amount had not been expended, and it had become highly improbable that the complete development, as originally contemplated, would ever be made. In view of this, a new ruling was promulgated by the treasury department on June 10, 1933, in mimeograph No. 4027, which imposes certain conditions to be observed by a taxpayer desiring to set up such a reserve for development, describes the course to be followed and, more important still, provides that if the amount of such reserve be not expended within five years from the opening of the account, the amount of the reserve account will not be allowed as a part of the cost of the lots. Every prospective developer should make himself thoroughly conversant with the current rulings on this important point.

4-13. This Reserve May or May Not Be a Liability.

It is important to determine whether this reserve for development is a liability or merely a provision for expenditures which, it is expected, will be made. The decision on this point will depend upon agreements which may have been made by the concern, perhaps with former owners, but more generally with lot buyers. Many tracts have been sold to developers who undertook to make definite improvements, and these undertakings became part of the consideration. Many lots have been sold by developers who promised purchasers that stated improvements would be made. In both cases, the reserve represents a liability which the concern must discharge.

On the other hand, if the reserve represent only expenditures which the concern expects to make but for which it has given no specific pledge, the account is in the nature of a proviso, for the concern incurs no liability if it fail to carry out its expectations. It may be said that the character of this reserve account depends upon whether it represents expectations or promises.

CHAPTER V

Carrying Charges

5-1. In addition to the cost of the land, the accounts should include the "carrying charges", a somewhat indefinite term, the principal items in which are usually taxes on unproductive property from the time of acquisition until it is offered for sale and interest paid during the same period. Considerable difference of opinion exists as to what may properly be included in such charges; for example, if a concern carries on an extensive advertising program before the property is put on the market, some authorities would include this in the cost, while others would regard it as an "organization expense" which would be written off at once or over a period of years. It must be remembered that "organization expenses" are not deductible when calculating federal income tax. It seems to be becoming more general practice to charge off such expenses at once.

Sometimes certain expenditures may be treated as carrying charges; that is, they may be capitalized or may be regarded as current expenses which are deductible for income-tax purposes. These should be carefully examined to determine which plan offers the greater advantage to the concern.

5-2. Frequently a question arises as to when the period of construction ends, for it is common to begin selling before improvements are completed. While this does not affect the cost of the work performed, it may affect the carrying charges, the overhead and charges for management, and these should be thereafter charged to operations, either in whole or in part as may be proper in the particular circumstances. When construction and selling are carried on simultaneously, such charges may be divided on a basis in proportion to the service rendered to each department.

5-3. When the work of construction includes the erection of buildings for specific uses, such as administration buildings, stores, warehouses or dwellings, the account for each such building should be kept distinct and should appear separately in the ledger.

5-4. Maintenance.

After construction is completed there remains the cost of maintenance. (1) In some cases none is provided; (2) in others the concern agrees to maintain a given condition for a stated time; and (3) in others lot purchasers agree to pay a periodic amount for a stated time. In no case do these transactions affect the profits of the sale itself. They may affect operating accounts of future years, and, in the second case, are chargeable to the profit-and-loss account. In the third case a debit and credit account should be kept; to the former is charged the cost of the work performed, while the latter is credited with all receipts on the same account.

5-5. Home Building.

The modern realtor is usually something more than a mere subdivider and has become a developer and improver, for, instead of merely disposing of vacant lots, he often undertakes the construction of homes and other buildings, either for general sale or for specific customers. In each such case the books of account should contain in one place a complete statement showing all details. This is best obtained by opening an account for each transaction, which will show, not only the total cost, but all the detail which that cost includes; not only the consideration received, but all the items composing it. If the cases be few, such accounts may be carried in the general ledger; if they be numerous, it is convenient to open a sub-ledger for them with its control account in the general ledger.

5-6. Sales of this sort frequently affect a number of accounts, such as those for insurance, taxes, legal services, etc., and a statement should be prepared showing the details of payment and also the inclusion of all proper items. It is convenient to use a form such as the following, which is suggestive only, as local customs and requirements vary greatly.

Purchaser's name.. Sale No............
Address ....
Property sold..
Price ....

Charges:	Lot sales	$...............
	Buildings (or other improvements)	
	Insurance	
	Interest	
	Legal fees	
	Assessments	
	Recording	
	Liens assumed	
	Taxes	
	Water rent	
	Commissions	
	Total charges	$...............
Credits:	Cash	
	First mortgage	
	Second mortgage	
	Total credits	$...............

FORM No. 1—Report of sale

5-7. Parks.

It has become a common practice for the vendor concern to undertake to form and maintain parks and ornamental spaces at its own expense. The cost of such work is carried in one or more separate accounts, which are periodically transferred to the profit-and-loss account and are properly deductible expenses when calculating the income subject to tax.

As the interest of the concern is cancelled when all lots are sold, it is sometimes arranged with lot holders that, when an entire unit is sold, they will form an organization among themselves to take over the control of and provide the funds for such beautification.

CHAPTER VI

Cost Accounts and Necessary Records

6-1. The details of construction costs can be brought on the books in several ways. The most convenient is the columnar analysis book, with a column for each of the sub-accounts shown in par. 4-6 which is to be maintained. If the work construction be done by the concern itself, its own records will furnish the necessary information. If it be done by a contractor, the management should insist that he furnish statements in sufficient detail to satisfy the accountant.

6-2. In addition to the class of work described above, there sometimes is dredging done by contract, the payment being based upon the yardage moved. In that case a separate sub-account should be kept. Also, such improvements as a water system or electric distribution may be installed. If these are to be merged in the general cost of construction, they will be treated with the items mentioned above. On the other hand, they should be kept separate, if it be intended to operate such utilities through a subsidiary company.

As a rule these accounts represent the actual cost of construction, to which must be added the overhead expense, as is indicated in par. 4-6 et seq.

6-3. Unit Costs.

What has been said here applies to a subdivision, all of which is being developed at one time. In practice, it frequently happens that a tract is divided into units which are developed one after another. This does not affect the principles to be followed, but it necessitates a complete set of cost accounts for each unit and calls for the division of some charges among several units. The cost of the land is usually allocated on the basis of acreage, taken in conjunction with location, frontage, elevation, accessibility, etc. Consequently, the entire tract when first platted should be divided into units and the relative value of each unit should be determined.

6-4. Other items, such as a drainage system, main roads of approach, central water system and others, may also benefit each unit, and in that case their cost should be allocated as fairly as possible and the accounting records should set forth fully the methods which have been followed, supported by costs and estimated values.

6-5. Plats and Maps.

As soon as a subdivision is platted, the office should be supplied with

Plats
Wall maps
Lot register

6-6. Plats.

In the office there must be a copy of the official map of each unit, showing the subdivision into lots, which is usually placed on the public records.

This is of special importance in the case of cemeteries, as, in many instances, the plat of a cemetery is not recorded in the public records (as is the plat of other subdivisions) but is kept only at the office of the association. There should be, in addition, plats showing the exact position of all water pipes, sewers, electric lines, etc.

6-7. Wall Maps.

Most subdivisions maintain wall maps on which all sales are marked in color. When this is done, the maps should be frequently checked against the other lot records.

These maps may be marked in colored pencil to denote any agreement made in reference to a lot, e.g., / may indicate an option or reservation, X may indicate that a contract has been executed, while if the lot be marked with a solid color it indicates that it has been conveyed to a purchaser or is disposed of in some other way.

6-8. Lot Register.

There are many forms on which the lot register may be kept, but, whatever method is adopted, it must be remembered that this record constitutes an inventory of all property owned and sold by the concern. It should always contain a list of every lot in a subdivision, with its cost price, its selling price and final disposition.

One complete form is described in chapter XX, par. 20-17, under the head of "Realized profits". A simpler form may be kept in a stock bound book or in a loose-leaf book, but, as its use may continue through a period of years, the sheets in the latter case should be re-inforced with linen hinges to stand the wear and tear of use. I have before me such a record, which is as follows:

1 Lot No.	2 Area	3 Sales price	4 Sold to	5 Selling price	6 Contract No.	7 Deed No.

FORM No. 2—Lot register

Every lot is entered in column No. 1, and columns Nos. 2 and 3 are filled in at the same time. Columns 4, 5, 6 and 7 are filled in as transactions occur.

This form is sufficiently detailed for the sales department, which is not concerned with all the details provided for in form No. 34.

Provision must be made for entering transfers and re-sales, either by leaving blank horizontal lines or spaces or by using additional vertical columns at the right side of the form.

This form is also sufficiently detailed for the accounting department, unless the latter desires to combine with it the record of realized profits, when it can be elaborated as shown in form No. 35, par. 20-20.

6-9. Standard or Basic Sales Price.

The plat of the property having been prepared, a list should be drawn off showing every lot which is to be offered for sale; and against each lot should be placed the price at which it is to be offered, these prices being all set as of one date and being based on some consistent plan. When these selling prices are added they constitute what is referred to here as the "standard" or "basic" sales price. The book should be prepared with the greatest care, on heavy paper, strongly bound, and preserved in the most careful manner, for it will afford the basis on which all profits will be calculated. Constant reference will be made to it. It affords to anyone inspecting the accounts the proof of profits reported. For further details see par. 6-19.

6-10. Current Price Book.

In many cases, when lots in new subdivisions are offered for sale, the prices are put at a low figure and, as sales progress, are advanced from time to time. In such cases it may be necessary to rely upon typewritten price lists, but directly fixed prices are reached, it is usually wise to have the list printed in a convenient form. When this is done it is an added help to have a few copies printed on loose-leaf sheets for the use of the officers, as options and reserves can be shown on them and they form a handy record for ready reference.

6-11. The Cost of Individual Lots.

As a matter of good accounting, the profit arising from the sale of each lot should be shown on the records. This is made obligatory by the regulations of the federal treasury department; therefore it is necessary to allocate the total cost to each lot in the plot.

I have found that the importance of this requirement is not fully recognized, either by owners or by accountants, although it has been in force for many years, and, therefore, the following quotation is given. Article 61, regulations 77, deals with the cost of lots in subdivisions and closes with the words:—

"This rule contemplates that there will be a measure of gain or loss on every parcel sold, and not that the capital in the entire tract shall be recovered before any taxable income shall be returned. The sale of each lot or parcel will be treated as a separate transaction, and gain or loss computed accordingly."

6-12. There are five methods of obtaining these figures:

1. Based on the number of lots.
2. Based on the area of each lot.

3. Based on the street frontage of each lot.
4. Based on release clauses in mortgages.
5. Based on the basic selling price of each lot.

6-13. 1. By the Number of Lots.

First the total cost of acquisition, carrying charges and improvements is obtained, and this is divided by the total number of lots. The objections to this plan are obvious, for lots differ in size and their selling prices vary greatly, according to their position.

Possibly, in some cases this plan has been encouraged by the fact that the property is covered by a mortgage, which contains a clause providing that any lot may be released upon payment of a fixed amount. However, such a clause does not affect the proper valuation of the lot, and this method is entirely unsatisfactory and unscientific.

6-14. 2. By the Area of the Lots.

In the second case the total area of the tract is calculated, deductions are made for the streets, parkways, etc., and the area of each lot is also determined. The prices are then computed by the following proportion:

Total area of all lots	:	Area of individual lot	: :	Total cost	:	Cost of individual lot

In practice the cost of one foot would first be determined by dividing the total number of square feet into the total cost and multiplying this by the number of square feet in a lot. This is not only laborious but is unsatisfactory, for lot values depend upon many factors: corner lots are worth more than inside lots, and low lots are frequently worth less than high lots, while lots on back streets are always of less value than those on the main highway; therefore this plan should not be approved.

6-15. Sometimes this procedure is varied by taking the entire area, without deducting for roads, etc., and using the formula:

Total area of tract	:	Area of individual lot	: :	Total cost	:	Cost of individual lot

This plan is subject to the same objections, with the additional one that it leaves unvalued all the land devoted to streets, parkways, etc. In other words, the total cost is divided between the lots for sale and the unsalable areas of streets, and having obtained the cost of the lots, there remains a residue which is the cost of the non-salable area.

The percentage of area devoted to streets varies greatly. Let us assume it to be 25%. Then in the case of a development covering 20 acres and costing $10,000 an acre, there is a total cost of $200,000, of which 25% or $50,000 is non-realizable.

This difficulty is met by setting up the amount of $50,000 on the ledger as an asset, and reducing it as each sale is made, so that it is extinguished when the last lot is sold—a process involving many entries.

While streets and open public spaces are not bought by lot purchasers, they are necessary to obtain access to and to enhance the value of all lots; therefore it seems ridiculous to set up a separate value for them. This plan was advocated by leading accountants some years ago, but it is now generally condemned in practice.

6-16. 3. By the Frontage of Lots.

In the third case the total street frontage of all lots is ascertained and there is set up a proportion as follows:

Total frontage	:	Frontage of individual lot	::	Total cost	:	Cost of individual lot

The objections to this are similar to those mentioned in case 2.

6-17. 4. By the Release Price.

Often, perhaps usually, land being developed as a subdivision is subject to a mortgage in which there are clauses providing that releases of specific lots from that mortgage may be obtained upon the payment of specified sums, and, in such cases, these "release prices" may be used to indicate the costs upon which profits are to be determined.

This method is subject to several objections. It is inconvenient, as the release price generally exceeds the cost price and, when only a portion of the lots has been sold, the cost of the entire subdivision, or unit, may have been recovered and the lots remaining unsold stand on the books as having cost nothing—leading to abnormal and unreal book profits. Even if a certain proportion of the release price be taken, it is common to find that this price is "averaged" and does not indicate the true cost of single lots.

6-18. 5. By the Sales Price of Lots.

The fifth plan is generally acknowledged to be the fairest and most reasonable method of determining the cost of each lot.

The procedure is to take the total standard sales price, mentioned above, and use the following formula:

Total standard sales price of all lots	:	Standard sales price of individual lot	::	Total cost	:	Cost of individual lot

Owners, accountants and officers of the treasury department have all agreed upon this plan.

It must be remembered that changes in the selling price actually obtained do not affect this formula, for, if the standard sales price be set at one time and be calculated fairly, any subsequent increase or decrease of price will not affect the proportions; and if a lot be sold for more than this standard sales price, it simply increases the profit on that lot.

This method, and this alone, gives due consideration to all the factors entering into the value of a lot, such as size, location, frontage, elevation, depth, orientation and natural features, for each one of these is considered when the basic selling price is determined; and it is upon these factors, and not upon the number of dollars asked, that the basic cost rests.

In following this method the suggestions made in pars. 4-10 and 4-12 should be remembered.

6-19. It saves much labor and probability of error if the list described in 6-9 show also, against each lot, its cost price, by whichever method this may be determined—a figure which the bookkeeper requires for each sale made. The total of these cost prices must equal the total cost of the tract, or unit, and this affords an additional proof of the correctness of the calculations.

CHAPTER VII

Sales

7-1. Type of Sales.

Every sale falls into one of two classes:

1. Cash sales.
2. Time sales, including
   - Mortgages
   - Leases
   - Contracts
   - Options (binders)
   - Reservations

In the case of cash sales, a deed is given as soon as the purchase price is paid and the transaction is closed, the form of the deed depending upon the statutory requirements of the different states and upon the preference of the owners or attorneys.

7-2. In the case of time sales, there is the choice between a mortgage and one of the many forms of contracts, leases or agreements. In the first case, the vendor conveys title to the purchaser, who in return gives an obligation to make stipulated payments. As a rule such obligations are enforceable in the courts and failure to meet them may result in penalties. If any form of "contract" be used, the title remains in the vendor until stipulated payments have been made. Under some forms the purchaser may be forced to comply with the agreement, while in others non-fulfillment results merely in the loss of any payments which he has made. The discussion of such matters lies in the province of the attorney rather than in that of the accountant.

Generally speaking, it is probably true that, if a concern be interested only in the selling of lots, a contract is preferred, while, if it enter the field of home building, mortgages are used.

7-3. In the case of a mortgage, a note secured by the mortgage is invariably given; while in the case of contracts there may be separate notes, or the obligation may be incorporated in the agreement itself. If any notes be given, the accounting department is concerned with their form, which affects the entries relative to interest, and with their number, which affects the method of recording and filing.

The advantage claimed for having a series of notes, each one representing one instalment, is that this facilitates collection and that bankers prefer it. The only disadvantage is the increased labor required for recording and filing and the increased risk of losing a paper.

At one time there existed in the minds of some bankers objections to discounting contracts unaccompanied by notes or to accepting them as collateral security, but of late years this objection appears to have become less, and properly drawn contracts are accepted as freely as are notes.

7-4. In obtaining re-possession, the local statutes must be considered. The difficulties arising with the income tax are discussed in chapters XVIII and XIX.

7-5. Whatever the form the sale may take, the federal regulations require that each sale be entered as it is made and that the profit or loss on each sale be shown. The treasury department has ruled that a sale occurs when title passes, or when the benefits and burdens of ownership are transferred to the purchaser. In subdivision sales this usually means when the initial payment is made and a contract is given.

7-6. Entering and Recording Sales.

It is necessary to emphasize the importance of numbering all sales consecutively.

There should be a separate series for each subdivision; but, as a rule, all time sales in any given division are of one character—that is, they are all represented by mortgages or by contracts, unless the concern builds homes. A series of such numbers includes both time and cash sales, each one of which is entered in the sales ledger to ensure a complete record of each transaction; and these numbers not only ensure the inclusion of all sales in the accounts but afford a quicker and more positive means of identifying each sale than do the names of the purchasers, for several purchases may be made by one person. Also, they afford the most satisfactory proof to revenue agents, or others, that all sales are properly recorded.

7-7. Method of Entering Sales on the Books.

Sales are brought on the books of account through the sales journal and the sales ledger.

Sales journal: This book is intended to receive the record of every sale made and of the profit arising therefrom. It may also contain, if desired, a record of the commissions payable on sales.

A stock columnar book may be used containing columns as follows:

Columns

1. Date
2. Name of purchaser
3. Description of lot
4. Amount of sale
5. Cost of lot
6. Unrealized profit

FORM No. 3—Sales journal

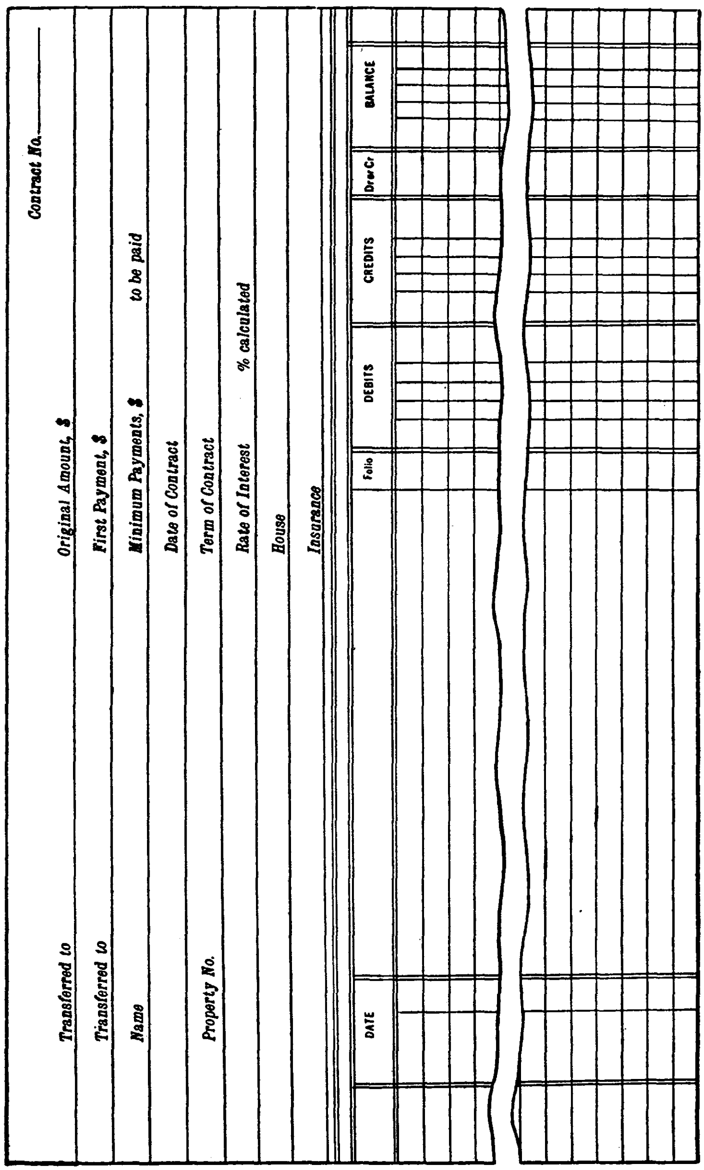
If commissions are also to be entered therein, the following columns may be added:

7. Total commissions
8.
9.
10.

Etc.—A column for each salesman, the total entries in columns 8 to 10 etc. being equal to the total of column 7.

At the close of each month all the columns are added and posted as follows:

No. 4. Amount of sale to the debit of "contracts" or "mortgages."
No. 5. Cost of lot to the credit of "lot sales."



Form No. 4—Sales ledger

No. 6. Unrealized profit to the credit of "unrealized profits."
No. 7. Commissions to the debit of "commissions" and
credit of "contingent commissions."

7-8. Sales Ledger.

The sales ledger is to contain the individual accounts relating to each sale. It is a customer's ledger. Usually a loose-leaf ledger is convenient, and it should be designed to meet the needs of each case. A typical form is shown on page 33.

7-9. Options and Reservations.

For present purposes, an option may be defined as the privilege to buy certain property for a certain price within a certain time. For this privilege a cash payment is usually made.

Such transactions should not be regarded, nor entered, as sales, but they should be kept in a separate account in the general ledger, with a sub-ledger for the particulars of each case. I have found one of the "visible" ledgers most convenient for this purpose.

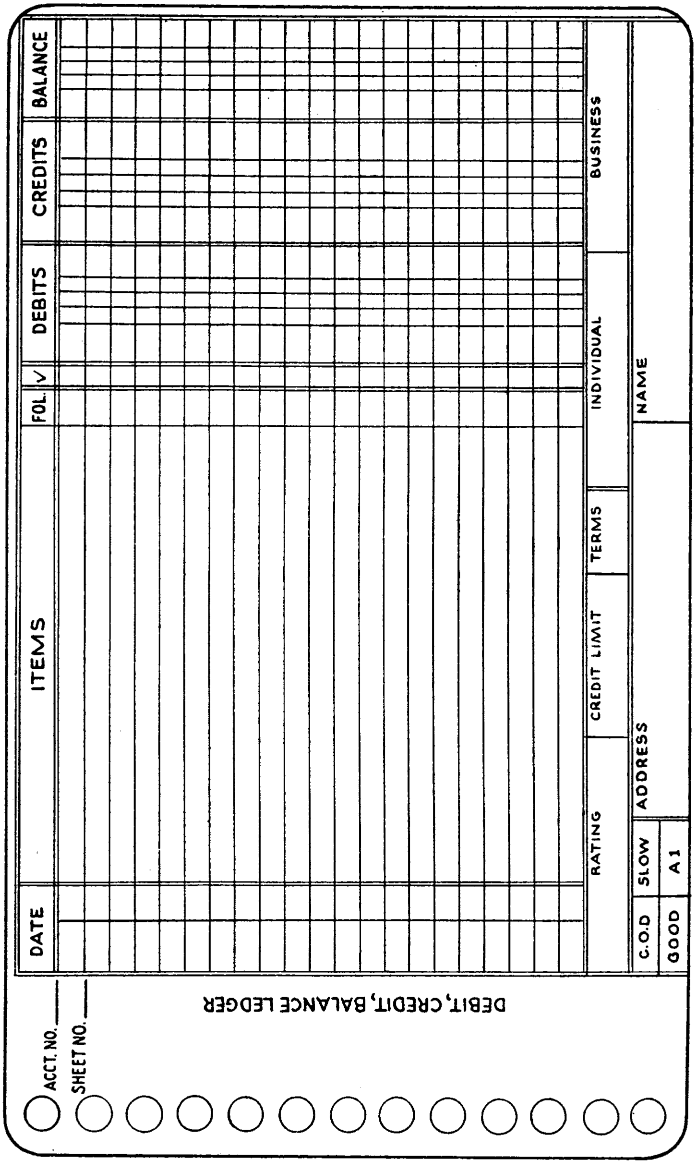
As payments are received, they are credited to "options" and, when the initial payment is completed, these receipts are debited to options and credited to contracts, or some similar account. If an option lapse, the money received is usually forfeitable and may be carried to the profit-and-loss account as a separate item, "options forfeited."

7-10. The Option Ledger is to receive entries of all options given and of money received on account. Each account usually is comparatively short lived.

A very convenient form is found in one of the visible ledgers, which obviates the necessity of indexing and allows any account to be found quickly.

Usually a stock form of ledger sheet may be used, each account showing name and address of the purchaser, the property covered, the price and terms of sale and the name of the salesman.

The account is credited with all payments made and when the initial payment on the sale is completed, the sale is entered in the sales journal and the amounts of cash received are transferred to an account opened in the sales ledger.



FORM No. 5—Option ledger

7-11. Index of Lots Sold or Reserved.

As soon as a subdivision is placed on the market, certain lots will be reserved for some purpose, or for some purchaser, and quick reference to such facts is essential. A convenient form is a card index with cards four by five inches. This is in charge of the bookkeeper, but it is kept on a counter available to all employees—the position is of importance.

A white card is prepared for each sale made or option granted, and these are filed in the numerical order of the lots.

A similar card is made out, with the name of the purchaser at the top, showing below the lot which is affected and any particulars desired. These are filed alphabetically in a manner similar to that used for form No. 6, the two files being kept in adjoining drawers and together affording means of instantly ascertaining the status of any lot or the name of any purchaser.

7-12. Reservations.

It frequently happens that a salesman desires to reserve a lot for a customer. In that case he fills out two cards, showing particulars and the period for which the reservation is to be made; and these cards are then filed in their proper positions among the white cards.

The result is a complete list of all lots which, for any reason, are not open for sale.

The form is as follows:

Lot 343 Sec. D
North 1-2 Contract 561 Thorpe
South 1-2 Reserved for do until Dec. 31, 1931

FORM No. 6—Card index, lots sold, etc.

7-13. Recording of Documents Regarding Sales.

The practice in recording sales documents is governed by the laws of the state and the preferences of those concerned. It is the universal custom to record all mortgages, for in many states the date of such record determines their priority as to other liens. In the majority of cases, contracts are not recorded; and in many instances such documents are not formally acknowledged and, therefore, are not eligible for record. These matters must be decided by each owner after consultation with his attorney.

7-14. Forms of Agreements, etc.

The forms of deeds and contracts are innumerable, in order to satisfy statutory requirements and to meet the views of owners and attorneys. Therefore, no attempt is made to give any one of them here.

It does fall within the province of an accountant to examine such documents to see that the required conditions are definitely stated, especially as to interest (See par. 10-5), and also to examine their mechanical form and see that the blank spaces provided are properly placed and of sufficient size—matters frequently overlooked by lawyers and owners.

7-15. Methods of dealing with sales are given in chapters VIII and IX, with the required forms. Whether these be adopted or not, it should always be remembered that the ledger account "cost of property"—or whatever similar name may be used—is a debit account with no credit entries until the books are closed. All sales are credited to a "lot sales account", which contains no debit entries, except those for cancellations, and is closed periodically into the "cost of property" account, which then shows the cost of the property remaining unsold.

7-16. Special Terms.

Another feature to be provided for, especially in the case of new subdivisions, is the "bonus" which is sometimes offered for making improvements. I have encountered this in two forms, namely, (a) a man bought a lot facing a golf course at a price representing the actual cost to the vendor, and it was agreed that, if he built within a year a house satisfying certain conditions, he would receive a deed on payment of the price. If he failed to build, all interest in the lot and payments made thereon reverted to the vendor. Such transactions call for no unusual entries. If the purchaser failed to build, the amounts paid in by him were cancellation profits.

In case (b) lots were sold at stated prices under an agreement that, if buildings of specified character and value were erected within a stated time, a certain discount would be allowed to the purchaser. Again, no unusual entries were required, beyond a notation in the sales ledger of the existence of the agreement. If the purchaser availed himself of the privilege the amount might properly be charged to discounts, for it directly reduced the profit on the sale.

7-17. Re-Sales.

It is a not uncommon practice for concerns operating subdivision properties to conduct a "re-sale department". The two principal reasons for such a department are:

First. The salesmen are provided with an additional argument if they can tell a purchaser that, should he want to sell, the concern will undertake the business for him. In the time of the Florida boom, such re-sales took place daily in some subdivisions, and afforded a great—frequently too great—stimulus to sales.

Second. If re-sales be handled by the concern there is less fear that lot owners will become competitors, and a serious danger is thereby greatly reduced.

The matter of re-sales offers no accounting difficulties. It involves the listing of the properties offered; it may entail some advertising, chargeable exclusively to re-sales; and it should yield a commission, all of which can be treated as are similar matters.

It is particularly important that in such sales a form such as No. 1 in par. 5-6 be prepared.

7-18. Securities Hypothecated, Discounted or Sold.

It is not unusual for a concern to pledge, or to discount, its mortgages and contracts receivable, and care should be taken to see that full particulars of such transactions are entered on the records. It is not wise to make such entries on the accounts in the sub-ledgers, for those accounts are sometimes shown to customers. Perhaps the most convenient place is the filing envelope, form 78, par. 26-8, either by endorsement on the face of the envelope or by a note enclosed in it.

In the case of the sale of such securities, the current regulations should be consulted as to the proper way to treat the proceeds when preparing income-tax returns.

7-19. Definition of Selling Contract.

A "selling contract" is an agreement between the owner of land and an agent who undertakes the sale of his property. Under such a contract the concern is, therefore, an agent, usually acting under a special agreement and having clearly defined rights, duties and powers. The terms of such contracts vary greatly, but as a rule they give an agent the exclusive right for a definite time to sell, under stipulated conditions.

Frequently the agent undertakes to bear all or part of the expense of advertising and sometimes that of development also. The agreement usually prescribes the manner in which the agent shall make payments to the owner, which is generally on a percentage basis, such as 50% of the cash collected monthly or during some other stated period. The selling contract, like other agency contracts, does not necessarily obligate the agent to buy or to pay for the land until he has sold it.

7-20. Classes of Selling Contracts.

The following are examples of typical selling contracts:

1. A contract under which the agent undertakes to sell certain described property, such as lots, at an average price per lot, and to remit periodically to the owner a certain portion of the cash receipts. All that the agent obtains above the average price is his profit, with, or without, the addition of any payments on cancelled contracts. In the final settlement, he is obliged to pay only for such lots as the owner may convey to purchasers.
2. Contracts under which a number of lots, or similar property, is placed in the hands of the agent, the lots having varying prices specified in the agreement, but the other conditions being similar to those of the first class.
3. Contracts under which the owner gives the agent sole selling rights to property at a fixed price per acre, or other unit of value, the agent undertaking all expense of developing, improving, advertising, selling, demonstrating, etc. In such cases the selling price is fixed in various ways—sometimes it is left to the agent, or a minimum price is stipulated. The method of paying the owner is set forth in the contract, and there is occasionally a further agreement that, after

the owner has received the price per unit agreed upon, and after all the expenses of developing, etc., mentioned above, have been repaid to the agent, the net profits, or the net profits above a named amount, are to be divided between the owner and the agent on the basis prescribed by the contract.

7-21. Treatment of Selling Contracts in the Accounts.

Under all forms of selling contracts, the selling price of lots sold is treated as an asset and the payment due to the owner as a liability, although the liability is contingent upon the completion of the contract made with the purchaser. For this reason it is advisable to show such liabilities in the balance-sheet as an item by themselves. The opening journal entry is in the following form:

Contracts	$...............	
To J. Doe, owner..............................		$...............
To gain on sales..............................		....

As collections come in, payments are made to J. Doe, owner, and debited to his account, the balance of which shows the remaining amount due him for properties covered by contracts. Care should be taken in drawing the balance-sheet to show that this class of liability is contingent upon completion of the contracts.

7-22. Special conditions are frequently inserted in selling contracts, and it is necessary in each case that the original agreement between the owner and the agent be examined by the accountant. Such agreements form a prolific source of contention, and the greatest care should be taken to ensure the proper recording of all points apt to cause misunderstanding, such as the land covered, the term of contract, the method of payment, the sharing of commissions and expenses and the nature of any expense to be borne exclusively by either party.

CHAPTER VIII

Time Sales

8-1. Mortgages.

From an accountant's point of view, the term "mortgage" may be defined as the pledging of property, frequently real estate, as security for the repayment of a specified sum of money at a specified time, together with interest calculated at a specified rate and payable at a specified time and place. If the condition be complied with by the maker of the mortgage—the mortgagor—the pledge becomes void.

The forms of mortgages and the laws governing them vary so greatly in the several states that only the general features of mortgages which bear directly on accounts can be considered here. As a rule, the form of a mortgage is that of a deed conveying the fee simple, but there is always preserved to the mortgagor an "equity of redemption"; and before considering mortgaged land as having become the property of the mortgagee, the accountant must satisfy himself that this equity of redemption has in some legal manner been foreclosed, forfeited, cancelled or surrendered. This is usually all that an accountant need ascertain on this question, for matters beyond this belong rather to the legal than to the accounting profession. An outline of the entries necessary to bring mortgages into the accounts is given in chapter VII.

Minor modifications in the form of a mortgage may appear, according to the ideas of the attorney drawing the document. None of these modifications affects the accountant, whose principal interest is in the debt which is secured by a mortgage and represents the consideration to be shown on the books of account.

In order to perform his duties properly, however, an auditor must be familiar with the general and local requirements governing the particular mortgage which he is examining, and he should be able to say whether or not the legal requirements have been met.

8-2. Requirements.

The principal legal requirements may be stated as follows:

1. The correct description of the mortgagor as to name, residence and civil condition.
2. The proper description of the mortgagee.
3. The proper insertion of dates wherever necessary.
4. An accurate and sufficient description of the property covered.
5. The witnessing and the execution of the document in accordance with statutory requirements.
6. The proper recording of the document, when that is necessary.
7. An examination of the notes accompanying the mortgage, to see that they are properly dated and executed and conform to the body of the mortgage.

8-3. Mortgage Notes.

The form of mortgage is purely a legal matter and needs little consideration here. The notes secured by the mortgage are, however, an entirely different matter and require discussion in some detail, for it is with them that the accountant is chiefly concerned. Generally speaking, these notes may be divided into two classes: (1) interest-bearing, (2) non-interest-bearing.

The following is an example of the first description:

$................ Jacksonville, Fla................................193........
.... after date, without grace, for value received, the undersigned promis.... to pay to the order of ....
....
....dollars ($................) together with interest thereon at the rate of .... per centum per annum until maturity, said interest being payable .... according to the tenor of .... interest coupon notes of ....
.......................dollars ($...............) each, attached hereto and bearing even date herewith, both principal and interest coupons payable at
....

Each maker and endorser waives the right of exemption under the constitution and laws of Florida, and each maker and endorser waives demand protest and notice of maturity, non-payment or protest, and all requirements necessary to hold each of them liable as makers and endorsers.

It is further agreed that the undersigned shall pay all cost of collection, including a reasonable attorney's fee, on failure to pay this note, or any interest coupon, at maturity. This note shall bear interest at the rate of ten (10) per centum per annum, from the date of maturity until paid.

This note, and also the interest coupons attached, are to be construed according to the laws of the state of Florida, where they are executed, and are secured by a mortgage on real estate, executed under even date herewith to the payee of this note.

Upon failure to pay any interest coupon on this note, when due, or if any of the conditions and requirements in said mortgage deed be not complied with, this note, at the option of the holder, shall become due and payable.

....

....

FORM No. 7—Mortgage note—interest-bearing

8-4. Variations in Form.

1. There are, of course, many variations in the forms of notes in each class, but the note shown in form 7* illustrates the essentials of the interest-bearing note.

In some instances, the words "on or before" are inserted at the beginning of the note. This gives the maker the right to pay in full at any time, and, if such an addition be made to the note, care should be taken to see that it is shown on the records in the books.

8-5. Coupons.

Attached to this note are the necessary coupons (form 8). Attention is called to the size of this coupon (approximately three and one-half by five inches), which in practice is much more convenient than the small coupons generally used. Each coupon is securely attached to the body of the note and may be torn off along the perforated line as it becomes due.

* Prepared for use in Florida by Frank P. Fleming, Esq., of the Florida Bar.

No. of Coupon........... Jacksonville, Fla.,........................... 193.......
On this .... day of ...., A.D. 193........ without grace, the undersigned promise.... to pay to the order of ....
....
....
................................dollars ($...............) at ....
................................for interest due on that day according to the tenor of a principal note of ....
dollars ($.......................) of even date herewith. This coupon bears interest at the rate of ten (10) per centum per annum from maturity until paid. Value received.

....

FORM No. 8—Mortgage coupon

8-6. It will be seen that the note shown in form 9, if paid at maturity, bears no interest. It is used when it is desired to have a definite number of notes, each for a fixed amount, the total of the series being equal to the principal and interest of the loan.

It is important that the exact amount of each of these notes be approved by the accountant before they are signed. The calculations involved are somewhat complicated—as are most calculations involving deferred payments—because each payment is composed of and reduces both principal and interest, the amount by which each is reduced varying with each note; i.e., the portion applicable to principal increases, and the portion representing interest decreases, with each successive payment.

.... 193........
....months after date I promise to pay to the order of .... at .... the sum of $...................................... with interest after maturity at the rate of .... per cent per annum.
Value received.

....

This note is secured by mortgage on real estate and is subject to the conditions therein contained.

FORM No. 9—Mortgage note—principal and interest

This form of mortgage note is similar to that employed by building and loan societies, most of which draw up tables for their own use showing the amount of principal remaining unpaid at the end of each year or other period. If the note is not paid at maturity, it is usual to provide for the payment of a penalty, either by naming a fixed sum or by a statement that the note shall bear interest after maturity.

8-7. Conditions in Mortgage.

Many forms of mortgage note contain a clause to the following effect: "This note is secured by a mortgage on real estate and *is subject to the conditions therein contained.*"

Attention is called to the words in italics, for such a qualification might seriously affect the negotiability of the instrument—a matter of importance to the accountant, and one which should be considered by the attorney responsible for the drafting of the papers.

While in New York and a few other states it is customary to use a bond instead of a note, it is believed that the note is used in by far the greater part of the United States. In either event the points to be covered are similar, and local usage will determine the form to be used.

8-8. The Instalment Mortgage.

There are certain points peculiar to the instalment form of mortgage, which are used as arguments for and against its adoption. Arguments in favor of this form are as follows:

1. The security is in a definite form, and as each payment is made its value increases in proportion to the amount of the debt.
2. It enables the purchaser to buy on terms as easy as under a contract, and at the same time it gives the vendor a security which he can easily hypothecate (or use as collateral for temporary loans, or for more permanent loans, such as debentures etc.) to greater advantage than a contract.
3. Once the terms are agreed upon, there is no further calculation of interest to be made.
4. Under the laws of most states, the mortgage notes can be made to bear interest after maturity without rendering the vendor guilty of usury.

8-9. The arguments usually urged against this form of mortgage are the following:

1. The vendor receives his principal in instalments and may have difficulty in quickly reinvesting such small sums.
2. The difficulty in determining a fair settlement if the purchaser makes payments in advance or if he anticipates the payment of the entire amount.
3. The difficulty in ascertaining the proper amount of each monthly payment or, if that be fixed, in ascertaining the number of such payments.

The first objection applies equally to all sales where part payments are made periodically. The answer to it is that such a plan greatly enlarges the number of possible purchasers.

The second and third objections are more formidable in theory than in practice. An elementary knowledge of mathematics will render possible the solution of the two problems involved.

8-10. The advantages of this method of sale are so obvious that they need not be stressed. The system should be more generally used. Possibly its lack of popularity has been caused by its similarity to what is usually known as the "building and loan plan," which is much disliked in some quarters. Such prejudice should not receive serious consideration.

8-11. Annuity Tables.

Reference to good annuity tables * will usually solve the questions which arise with instalment mortgages, i.e.: given the purchase price and the rate of interest—

1. How many payments of a stated sum are necessary to liquidate principal and interest?
2. The number of payments being agreed upon, what should be the amount of each payment?

As a rule, a concern sells on a fairly uniform basis. For instance, it will accept in payment for sales, say, 120 monthly payments of

* Stubbins' *Annuity Tables,* will be found advantageous as they show monthly payments—something which few other tables do. Also Kent's *Compound Interest Annuity Tables* are helpful.

$11.12 each, for each $1,000 of purchase money, with interest at 6% per annum. In such cases a table can easily be constructed showing the division of each payment into principal and interest, so that at any time the amount of principal paid can be determined.

For example, reference to the table shows that 120 monthly payments of $11.12 will pay off a principal debt of $1,000 with interest at 6% per annum. The interest for the first month on $1,000 is $5.00 and the principal included in the first payment is therefore: $11.12 — $5.00 = $6.12. The interest for the second month is to be computed on $1,000 — $6.12 = $993.88, and amounts to $4.97; the principal included in the second payment is therefore: $11.12 — $4.97 = $6.15.

The rule for the construction of such tables is as follows: Having found the amount of principal contained in the first payment, multiply this by 1 plus the rate of interest for one month. At the rate of 6% per annum, the monthly rate would be .005. If the principal part of the first payment is $6.12, the amount of the principal in the second payment will be found by multiplying this amount by 1.005, the same process being repeated until the table is completed.

The amount of principal included in any given number of payments may also be found by reference to annuity tables or by algebra. These amounts are in geometric progression. The table will appear as follows:

Payment	Amount	Interest	Principal	Principal unpaid
1	$11.12	$5.00	$6.12	$993.88
2	11.12	4.97	6.15	987.73
3	11.12	4.94	6.18	981.55
4	11.12	4.91	6.21	975.34
5	11.12	4.88	6.24	969.10

8-12. Change of Ownership.

In sales secured by mortgage, one point is sometimes overlooked which is usually covered in contracts—that is, the transfer of the property by the mortgagor and the consequent change of debtor.

Where concerns handle a large number of purchase-money mortgages, much inconvenience is caused by transfers where the mortgage is assumed by a third party without the knowledge of the mortgagee, who is put to unnecessary trouble in finding the person who actually pays the coupons as they fall due. This difficulty can be guarded against by the insertion in the mortgage of a clause obligating the mortgagor to notify the mortgagee of any change of ownership. The wording of such clause will depend upon the form of the mortgage itself.

8-13. Foreclosures.

In every business dealing in mortgages there sometimes arises the necessity of instituting foreclosure proceedings or taking some other steps to acquire the mortgaged property. Occasionally such proceedings require a long time for completion, because of delays in legal processes, the difficulty in communicating with parties interested, or for various other reasons. In these cases, it is sometimes wise to transfer such mortgages from "mortgages receivable" to "mortgages in settlement", for by so doing the former account will always represent mortgages in good standing. The transfer is made by a journal entry of the following form:

Mortgages in settlement...............................	$...............	$...............
To mortgages receivable.......................		$...............
To transfer mortgage No. .... in course of settlement		

If the value of the property is equal to or greater than the principal and interest and charges, the latter should be included in the journal entry; otherwise they should be written off to profit-and-loss.

8-14. Mortgage Deficiency Account.

Occasionally instances occur where the value of the mortgaged property is less than the amount of the mortgage, through an original overestimate or through depreciation from some cause. In such cases, if the settlement is apt to be protracted or, as sometimes happens, it is desired to retain the lien of the mortgage rather than to acquire title, it may be advisable to write off the loss immediately, instead of continuing to show a fictitious asset. Some accountants hold that nothing should be charged off to profit-and-loss until sale or settlement has been made.

For example, if a mortgage for $5,000 fall in arrears and it be decided to foreclose, the value of the property on the best estimates obtainable being only $3,000, the following will be the proper entry:

Mortgages in settlement	$3,000	
Mortgage deficiency account	2,000	
To mortgages receivable		$5,000
For mortgage No. .... in settlement, the estimated value being $3,000.		

The mortgage-deficiency account is usually written off by a debit entry against surplus, reserve or profit-and-loss, as the occasion may require. Care must be exercised to see that the procedure followed conforms to the current revenue laws. See chapters XVIII and XIX.

Time Sales—"Contracts"

8-15. Simple Form of Contract.

The term "contract" is used in this book to cover the great variety of forms of agreement which are given to purchasers or prospective purchasers of real estate and are known as leases, conditional contracts of sale, bonds for title, agreements, contracts, etc. In this chapter the words "contract", "agreement" and "lease" are used to describe an agreement providing for sale on the instalment plan.

Perhaps the simplest form of such agreement is one which gives the prospective purchaser the right to occupy certain described lands for a specified time and also the right to buy those lands during that time at a specified price, provided he make the required payments. These payments may consist merely of interest at the current rate on the amount of the purchase price, the vendor agreeing that, if all conditions are complied with (including the payment of the purchasing price), he will, at any time during the life of the lease, deliver a deed to the purchaser, conveying good title.

There are many varieties of contracts more elaborate than this, but all of them observe the principle that, when the conditions specified are carried out by the purchaser, the vendor will convey title to him. The periodic payments may vary to any extent, the usual minimum, as in the case above mentioned, being merely interest on the principal.

8-16. Conditions Applying to Contracts.

The following points, affecting the business side of contract sales, are of interest to the accountant:

1. It is usual to state clearly when and where payments are to be made.
2. The purchaser usually agrees to pay all taxes and assessments accruing after a specified date.
3. Restrictions are often imposed as to maintaining present buildings and as to the uses to which they may be put.
4. All buildings are usually kept in repair by the purchaser.
5. The purchaser is usually required to maintain insurance in favor of the vendor, for an amount mentioned in the agreement.
6. The purchaser is prohibited from assigning the contract without written consent of the vendor.
7. The purchaser agrees not to allow any encumbrance or liens to be placed against the property.
8. It is generally stated that failure to make any required payment when due subjects the entire agreement to cancellation, either immediately or after a specified time, such as thirty, sixty or ninety days.
9. The vendor usually has the right to pay any assessments, etc., which may be overdue, and to charge them to the purchaser or to use them as grounds for cancelling the contract.
10. If any legal proceedings become necessary, the agreement is chargeable with all the expenses connected therewith, including court costs, attorney's fees and, where required, an abstract of title.
11. All payments on account of the contract must be made to the vendor or to some party who is the authorized representative of the vendor.
12. The official address of the purchaser is usually given, and a provision is inserted that notice mailed by the vendor to him at that address shall be considered a proper notice of any delinquencies, etc.
13. It is provided that no delay on the part of the vendor in exercising any of his technical rights under the agreement shall be construed to be a waiver of any of his rights thereunder.

14. The agreement is usually executed in duplicate by both parties, each retaining one copy.
15. In the case of selling vacant lots, it is becoming a common practice to insert restrictions as to the character, position, cost and nature of buildings which may be erected on the property, and also prohibiting the sale or use of the property to or by persons of other races.

In examining such contracts, it is the duty of the accountant to see that the description of the property is correct and in conformity with that shown on the books of account and that all particulars are properly entered in the contracts ledger.

8-17. Precision as to Amount of Sale.

Another point which calls for care is a definite statement of the total amount of the sale. For example, the agreement may be granted for a nominal consideration of $100, and it may provide that, on the payment of $1,000 by the purchaser, title will be conveyed to him. These two amounts usually appear in different parts of the agreement, and there is frequently some doubt as to whether the original $100 is to be included in the $1,000 or added to it. It is advisable, therefore, that the clause stating the amount of the consideration be clearly stated, as follows:

"The lessor covenants and agrees to and with the lessee that, if the lessee shall, during said term, well and truly pay the rent hereby reserved, including the taxes and other payments for which he is liable, and fully and promptly perform and carry out each and every, the covenants and undertakings on his part, and if, during the term of this lease, the lessee shall have paid the lessor the full sum of .... dollars, exclusive of the sum named as the consideration of this instrument with interest at the rate of .... per cent per annum on the unpaid portion of said purchase price, as hereinbefore provided, then and in that event the lessor shall convey or cause to be conveyed to the lessee a good and sufficient title in fee to the lands herein described."

Consideration for the agreement is, of course, the first payment on the purchase.

8-18. Pass-book Contracts.

There is one variety of contract which for convenience may be called the "pass-book contract," in which the contract is printed on the first pages of a book similar to a bank pass-book (the description inserted with a pen) and the agreement duly executed. Following this agreement there are blank pages on which to enter each payment as it is made by the purchaser. This form of book is sometimes used in handling comparatively small subdivisions, where the general description may be printed in, the only variation being the number of the lot or block covered by each contract.

It is possible that this form of agreement was devised by a banker who had been accustomed to handle savings-bank accounts. Theoretically, it has many advantages, for it provides for a complete record of all payments made. In practice, however, it has many disadvantages, for these books are frequently lost and, still more frequently, the purchasers make payments of instalments without their books. In many instances the purchasers of one tract are scattered over the entire United States, and sometimes over the world, and it is then impossible, of course, to present the book when each payment is made. The value of the book depends upon its containing every payment, and confusion is caused by any omissions.

Another method somewhat similar to the pass-book plan is to draw a lease or an agreement in some standard form and make provision on the back for entering payments made by the purchaser, but the objections mentioned above apply equally to this form.

8-19. Comparative Advantages of Mortgages and Contracts.

The owners of real estate, particularly of subdivision property, are frequently in doubt as to the best method of selling, especially as to the relative advantages of selling under mortgages and under contracts, and the legal aspect of this question should be discussed with the owners' attorneys. The best attorneys, however, sometimes fail to understand the practical conditions. The main difference between a mortgage and a contract is that, in the case of a mortgage, the purchaser obligates himself to make certain payments at certain times and gives his note or notes to that effect. Should he fail to comply with these conditions, proceedings may be brought against him; and if he continue in his failure to make payments, judgment against him will probably be obtained. The value of this judgment depends entirely upon the financial standing of the purchaser, and, in the case of subdivision business, the responsibility of many of the purchasers is so doubtful that a judgment is of little value.

On the other hand, under many forms of contract the purchaser is not obligated to continue the payments. In other words, if he fails to comply with the conditions of the contract, he loses what he has put into the property, but the vendor can not obtain a judgment against him or in any way compel him to pay the balance.

Under these conditions, it is obvious that it is much easier for a sales department to handle a sale of property under contract than under mortgage, although such institutions as trust companies or others lending money on security have a strong preference for mortgages, based, of course, upon the personal obligation carried by the mortgage.

The final choice between a contract and a mortgage may be affected by the income-tax regulations, especially in repossession of properties sold. As these regulations have already been subject to numerous changes, and as further alterations are expected, it is impossible to do more here than to utter a word of warning.

8-20. Contracts Accompanied by Notes.

It is impossible to give any form of contract, for it is seldom that two concerns use the same form. However, there is one broad question which is worthy of consideration and that is the payments provided for in contracts.

In some cases the contract does not provide for any specific note; in others a note is included in the body of the instrument; while in other cases purchasers execute a note or sometimes a series of notes, one for each payment provided for in the agreement.

The selection of the form to be followed in any given case must be affected by the circumstances and must be made by the owner or by his attorney rather than by the accountant. However, the accountant must adapt the forms of record to the style of contract which is chosen. From his point of view the contract without any accompanying notes is the easiest to file and to handle. If notes be given, they should be cared for in some such manner as is described in chapter XXVI.

8-21. The chief advantages claimed for one or more notes are:

1. That the execution of a note by a purchaser causes him to assume a definite and enforceable liability, especially if the note be in the form of an ordinary negotiable instrument in which, in some cases, no mention is made of the purpose for which the note is given.
2. Contracts and their accompanying obligations are frequently used as collateral for loans, and some bankers prefer that such securities be in the form of notes, while others are indifferent as to the form.
3. Some concerns believe that the execution of a note for each payment facilitates collection, as the notes can be collected by banks with greater ease and more certainty than can mere notices of maturity.

Strangely enough, the advocates of each method base their preference on the ground of simplicity. In the first class, no loose papers exist and the entire obligation is revealed by one paper; in the second class it is claimed that a note is more marketable than a mere contract, and that this method simplifies and facilitates the use of the securities either for sale or for hypothecation. The advocates of the third method claim that the existence of a note for each payment facilitates collection, as it can be sent through banks in the usual manner for collection.

Probably the circumstances of the case and the preference of local bankers will affect the decision, but if the third method be adopted, the accountant must make special provision for the proper care and handling of the multiplicity of papers which will result.

8-22. Recording Contracts.

There is also difference of opinion as to whether or not it is to the advantage of the vendor to have contracts recorded. Some vendors decline to execute a contract in such a manner that the purchaser can record it.

The recording of a contract has the advantage of giving notice to the world that some lien exists, and in some states it may add to the difficulty of cancelling a contract.

CHAPTER IX

Time Sales, Continued

9-1. Instalment Sales Represented by Equal Periodic Payments.

This chapter deals exclusively with instalment sales in which the instalments are all of equal amount through a stated period, each one including both principal and interest, the amount of the former increasing, while the latter decreases in each successive instalment. It is written in the hope that it may remove an impression which seems to be generally held that such a method involves complicated calculations beyond the powers of the usual office man.

To calculate the required amounts by mathematics involves the use of logarithms and some complicated formulæ, but the answer can readily be obtained by the use of any one of the tables which are published showing the present value of one dollar payable at various intervals for various periods, ranging from one month to three hundred months at various rates of interest. Therefore it is not necessary to discuss here the theories involved but merely to describe the simplest methods to be followed.

9-2. Method of Calculating.

The terms of a proposed sale being known, it is desired to ascertain the amount of each of a given number of instalments, made at stated intervals, which will extinguish the amount to be paid and yield interest on the unpaid balances at a given annual rate of interest. For example: What monthly payment is required to extinguish a debt of $1,000 in three years with interest on the unpaid balances at 6% per annum?

The answer is obtained by finding from tables the present value of one dollar payable on the same terms and dividing the amount of the debt to be paid by that amount.

9-3. For this example, the tables show that the present value of one dollar paid monthly for 36 months is 32.871; and if we divide $1,000 by this amount the quotient is $30.40, which is the answer desired.

Precisely the same process is followed if the payments are to be for any other period, such as quarterly, semi-annual or annual. In the example given in par. 10-9 the present value of one dollar for 120 months at 8% per annum is 82.422, and $1,000 divided by 82.422 gives $12.13268.

In the case of most subdivisions, the range of prices is moderate, and complete tables for use in the office can be prepared without difficulty.

9-4. To illustrate: Two examples are taken from personal practice, (1) an expensive development in southern Florida where the prices of lots ran into many thousands but the terms were fixed at a cash payment of 20 per cent and 8 quarterly payments with 6% interest; and (2) an inexpensive subdivision where prices ranged from $300 to $2,000, the standard terms being 36 months, but sometimes reduced to one year and sometimes extended to five years.

Example No. 1

Upon referring to tables, it is found that the present value of 8 quarterly payments of $1.00 each is $7.4860. Therefore, under the above rule, the amount of instalments to repay $1,000 is $\frac{1000}{7.4860}$ which is $133.58. Having found this, the corresponding payments for all other amounts are easily found by multiplication or division—e.g., the instalments on $3,000 are $133.58 × 3 or $400.75
on $500 they are $133.58 ÷ 2 or $66.79.

The following table shows, in column No. 4, the quarterly payments required to liquidate the principal and interest of the respective amounts of indebtedness shown in column No. 3, if such indebtedness be paid off in 8 equal quarterly payments, interest being calculated semi-annually at the rate of six per cent. per annum on the amounts from time to time remaining unpaid.

Column 1	Column 2	Column 3	Column 4
Purchase price	20% of price	Balance of purchase price to be covered by instalments	Quarterly payment
		25 00	3 34
		50 00	6 68
		75 00	10 02
		100 00	13 36
		200 00	26 72
		300 00	40 08
		400 00	53 43
		500 00	66 79
		600 00	80 15
		700 00	93 51
		800 00	106 87
		900 00	120 22
		1,000 00	133 58
4,000 00	800 00	3,200 00	427 47
4,500 00	900 00	3,600 00	480 90
5,000 00	1,000 00	4,000 00	534 34
5,500 00	1,100 00	4,400 00	587 77
6,000 00	1,200 00	4,800 00	641 20
6,500 00	1,300 00	5,200 00	694 64
7,000 00	1,400 00	5,600 00	748 07
7,500 00	1,500 00	6,000 00	801 50
8,000 00	1,600 00	6,400 00	854 94
8,500 00	1,700 00	6,800 00	908 37
8,750 00	1,750 00	7,000 00	935 09
9,000 00	1,800 00	7,200 00	961 80
10,000 00	2,000 00	8,000 00	1,068 67
11,000 00	2,200 00	8,800 00	1,175 54
12,000 00	2,400 00	9,600 00	1,282 41
12,500 00	2,500 00	10,000 00	1,335 84
13,000 00	2,600 00	10,400 00	1,389 27
13,500 00	2,700 00	10,800 00	1,442 71
14,000 00	2,800 00	11,200 00	1,496 14
15,000 00	3,000 00	12,000 00	1,603 01
16,000 00	3,200 00	12,800 00	1,709 88
16,500 00	3,300 00	13,200 00	1,763 31
18,000 00	3,600 00	14,400 00	1,923 61
18,500 00	3,700 00	14,800 00	1,977 04
20,000 00	4,000 00	16,000 00	2,137 34
22,500 00	4,500 00	18,000 00	2,404 51
26,250 00	5,250 00	21,000 00	2,805 26
47,500 00	9,500 00	38,000 00	5,076 19

FORM No. 10—Instalment table, quarterly payments

DATE		FOLIO	PRINCIPAL			INTEREST		
			DR.	CR.	BALANCE	DR.	CR.	BALANCE

AGENT	
% COMMISSION	
AMOUNT OF COMMISSION	
COMMISSION PAID	

Form No. 11—Instalment ledger, "visible" form

Quarterly payments for amounts not shown in column No. 3 (page 57) may be obtained by addition or multiplication—e.g. the quarterly payment for $4,200 is 93.51 multiplied by 6 = 561.06 or 534.34 plus 26.72, which equals 561.06.

9-5. *Instalment Ledger.*

In this case, where the number of instalments was small, the customers' accounts were kept on visible ledger sheets of the form appearing on page 58. They were filed alphabetically, and colored markers were used to show the months in which payments fell due, so that the sales ledger also served as a tickler.

9-6. In this ledger the customer was charged with the total amount of the sale, including interest, as shown in par. 10-10, and the bookkeeper also entered the amount of interest included in the payment, which he calculated from the table (form No. 12) showing the details on a sale of $1,000,—e.g., the purchaser of a $6,000 lot would make quarterly payments of $641.20 each (see form No. 10), the interest included in his quarterly payment being, as shown by column 2 of form 12 below, $15 × 6 or $90; the interest included in his second payment would be $13.22 × 6 or $79.32, these amounts being entered against his payment in the "interest" column of his account.

At the end of each fiscal period, or at the end of each month, if preferred, the bookkeeper would list all the entries in the "interest" columns made during the period and make a journal entry in the following form:

Unearned interest	$...............	
To interest earned		$...............
To transfer collections for the period.		

Table showing the amount required and the balance remaining at each quarter on $1,000, to be repaid by 8 quarterly payments of $133.58 each, interest to be calculated at the rate of 6% per annum on the balance remaining unpaid at the end of each quarter.

	Total payments	Interest Portion		Principal Portion		Balance after each payment		
		Each month	Totals	Each month	Totals	Interest	Principal	Total
0	....	......	......	....	....	$68.64	$1,000.00	$1,068.64
1	$ 133.58	$15.00	$15.00	$118.58	$118.58	53.64	881.42	935.06
2	267.16	13.22	28.22	120.36	238.94	40.42	761.06	801.48
3	400.74	11.41	39.63	122.17	361.11	29.01	638.89	667.90
4	534.32	9.58	49.21	124.00	485.11	19.43	514.89	534.32
5	667.90	7.72	56.93	125.86	610.97	11.71	389.03	400.74
6	801.48	5.83	62.76	127.75	738.72	5.88	261.28	267.16
7	935.06	3.91	66.67	129.67	868.39	1.97	131.61	133.58
8	1,068.64	1.97	68.64	131.61	1,000.00	......	....	....
		$68.64		$1,000.00				

FORM No. 12—Instalment table, quarterly payments

INTEREST AT 6% PER ANNUM ON THE BALANCE REMAINING UNPAID AT THE END OF EACH PERIOD.

Payments in	Monthly instalments		Quarterly instalments		Semi-annual instalments		Annual instalments	
One year	100 / 11.619	$8.61	100 / 3.8544	$25.94	100 / 1.9135	$52.26	100 / .94340	$106.00
Two years	100 / 22.563	$4.43	100 / 7.4860	$13.36	100 / 3.7171	$26.90	100 / 1.83339	$54.54
Three years	100 / 32.871	$3.04	100 / 10.9076	$9.17	100 / 5.4172	$18.46	100 / 2.67301	$37.41
Four years	100 / 42.580	$2.35	100 / 14.1313	$7.08	100 / 7.0197	$14.25	100 / 3.46511	$28.86
Five years	100 / 51.726	$1.93	100 / 17.1687	$5.82	100 / 8.5302	$11.72	100 / 4.21236	$23.74

FORM No. 13—Instalment table, monthly payments

9-7. Example No. 2, Monthly Payments.

In this case the amounts involved were smaller and the instalments, being payable monthly, were greater in number.

In order to ascertain the amounts of the monthly payments, form No. 13 was prepared, showing the amounts for $100 under all the conditions which would occur under the terms in force, the calculations being made by dividing $100 by the present value of $1.00 for the various terms, as shown in the tables.

(Note.) The fractional amounts shown in form No. 13 indicate the method of determining the periodic payments, but they do not appear in the tables distributed for use by the salesmen.

9-8. Other periods were calculated and each salesman was furnished with a statement in the following form:

Memo of the monthly payments required for each $100 remaining unpaid, after deducting the initial payment.

Payable in	6	months	—	$16.95	
” ”	9	”	—	11.39	
” ”	12	”	—	8.61	— 1 year
” ”	15	”	—	6.94	
” ”	18	”	—	5.82	
” ”	21	”	—	5.03	
” ”	24	”	—	4.43	— 2 years
” ”	27	”	—	3.93	
” ”	36	”	—	3.04	— 3 years

e.g. If the selling price of a lot be	$900.00
and 10% be paid,	
there remains ($900 — $90)	810.00
the monthly payment for 3 years is $3.04 × 8.1	24.62
If the selling price be	1,000.00
and 10% be paid,	
the monthly instalment for three years	
is $3.04 × 9	27.36

FORM No. 14—Form of instalments for sales force

9-9. Variation in Terms.

The client for whom this form was drawn had adopted three years as the standard period. If a purchaser paid in one year he was allowed a discount of 5%; if in two years, a discount of 2½%. On the other hand, if he bought under a four-year contract, a premium of 2½% was added, and if under a five-year contract the premium was 5%.

In the above example, if five years were required, the amount would be:

Unpaid principal	$540.00
Add 5% premium	27.00
	$567.00

and 1.93 multiplied by 5.67 is $10.94. (See form No. 13.)

9-10. Simplification of Bookkeeping.

Theoretically, each instalment should be treated as in example No. 1, par. 9-4, but this involves much detail, and the following plan has been adopted. In the present example the customer is charged with the principal amount of his purchase, e.g., in the above example of a sale for $600 the monthly payment is $16.42, the total amount paid being $591.12, or, including the cash payment, $651.12. In such cases the original entry may read:

Contracts	$600.		
To Lot sales		(say)	$ 60.
" Unrealized profits		(say)	$540.

This amount is charged in the customers' ledger, the account being credited with the monthly payments of $16.42 each, as they are made.

When thirty-two payments have been made $585.44 will have been received, all of which have been credited to principal. Therefore, $14.56 out of the thirty-third payment will close the principal account, and the balance of that payment, together with all the three remaining payments, may be credited to interest. This not only avoids complicated cross entries when contracts are cancelled but also greatly simplifies the bookkeeping.

It is not in accordance with the letter of the requirements of the federal treasury department, but the plan has been discussed with many persons, and the prevailing feeling is that the advantages it presents in the matter of simplification would be sufficient to warrant its acceptance by that department when calculating income tax.

9-11. To illustrate various methods which have been found in practice, let us apply them to the following hypothetical case:

On January first the concern sold for $600 a lot which cost it $60; 10% ($60.00) was paid in cash and the remaining $540 will be paid in thirty-six equal monthly instalments, interest at the rate of 6% per annum being charged on the amounts remaining unpaid from time to time.

"A" Plan

The purchaser pays $15.00 a month and in addition interest calculated each half year on the amounts remaining unpaid at the end of each month. The result will be:

	Cash received on principal	Interest	Total amount received	Realized profit
Initial payment.......	$ 60.00	....	....	....
1st year				
12 instalments........	180.00			
	$240.00	$ 27.45	$267.45	$216.00
2nd year				
12 instalments........	180.00	16.65	196.65	162.00
3rd year				
12 instalments........	180.00	5.86	185.86	162.00
Total...........	$600.00	$ 49.96	$649.96	$540.00

"B" Plan

The interest is calculated semi-annually on the amount remaining unpaid at the end of the half year. This greatly reduces the labor of calculating; it does not yield 6% interest, but it has the effect of leading purchasers to make additional payments before each half year ends and greatly stimulates collections.

The results are:

	Cash received on principal	Interest	Total amount received	Realized profit
Initial payment and *1st year*	$240.00	$ 24.30	$264.30	$216.00
2nd year	180.00	13.50	193.50	162.00
3rd year	180.00	2.70	182.70	162.00
Total	$600.00	$ 40.50	$640.50	$540.00

"C" Plan

The purchaser pays $15 a month, and, as each instalment is received, the interest accruing since the last payment was made is calculated and deducted from the $15, the remainder being credited to principal. The results are:

	Principal received	Interest	Total amount received	Realized profit
Initial payment and *1st year*	$211.72	$ 28.28	$240.00	......
2nd year	161.09	18.91	180.00	......
3rd year	171.01	8.99	180.00	......
4th year .... 3 instalments— part of fourth	56.18	.68	45.00 11.86	......
Total	$600.00	$56.86	$656.86	......

"D" Plan

The interest is averaged as in par. 10-9, and the following result is obtained if the interest be spread equally:

	Principal received	Interest	Total amount received	Realized profit
Initial payment and *1st year*	$240.00	$ 16.20	$256.20	$216.00
2nd year	180.00	16.20	196.20	162.00
3rd year	180.00	16.20	196.20	162.00
Total	$600.00	$ 48.60	$648.60	$540.00

"D-2" Plan

In order to simplify calculation of realized profits, all money received is regarded as profit, which then includes interest. If the cost be $60 and the concern receive $648.60 (as in "D" above) the profit is $588.60 or 90.75% of the total amount received. Therefore 90.75% of all receipts is realized profit. This will yield:

	Total receipts	Realized profit
Initial payment and *1st year*	$256.20	$232.50
2nd year	196.20	178.05
3rd year	196.20	178.05
Total	$648.60	$588.60

"E" Plan

The tables above referred to show that the required monthly instalment is $16.42, and the result will be:

	Total receipts	Principal	Interest	Realized profit
Initial payment and *1st year*	$257.04	$229.36	$ 27.68	$206.42
2nd year	197.04	179.78	17.26	161.80
3rd year	197.04	190.86	6.18	171.78
Total	$651.12	$600.00	$ 51.12	$540.00

Plan "E" may be treated as in "D-2".

"F" Plan

The vendor receives the initial payment	$ 60.00
36 instalments of $16.42	591.12
	651.12
The lot cost	60.00
Total profit	$591.12
or 90.878% of the sales price.	

The taxable profit will be:

	Total receipts	Realized profit
Initial payment and *1st year*	$257.04	$233.40
2nd year	197.04	178.86
3rd year	197.04	178.86
Total	$651.12	$591.12

"G" Plan

The terms are as in "E" and "F" plans, but the plan suggested in par. 9-10 is adopted, and the customer's account is as follows:

	Dr.	Principal Cr.	Balance	Realized profit 90%	Interest
Sale	$600.00	......	......	......	......
Initial payment	....	$ 60.00	$540.00	$ 54.00	......
1st year	....	197.04	342.96	177.34	......
2nd year	....	197.04	145.92	177.34	......
3rd year—8 instalments	....	131.36	14.56	118.22	......
9th "	....	14.56	......	13.10	$ 1.86
10th, 11th and 12th instalments	....	......	......	......	49.26
		$600.00		$540.00	$ 51.12

The total amounts collected under these plans are, respectively:

Plan "A"	$649.96
Plan "B"	$640.50
Plan "C"	$656.86
Plan "D"	$648.60
Plans "E", "F" and "G"	$651.12

9-12. Instalment Sales in which an Even Number of Dollars is Paid for Varying Periods.

In cases where the price of subdivision lots is small, such as in subdivisions for laborers, and sometimes in cemeteries, it may be desired to give terms under which the purchaser pays a round sum, such as $1.00, $2.00, $3.00, etc., a month for different periods. The sums to be paid in this manner are ascertained by dividing the total amount to be paid by the monthly or periodic payment and then ascertaining from tables the number of months required to give a like sum. For example: If a purchaser agree to buy a lot for $100 and pay 10% in cash, there remains unpaid $90, which it is desired to pay in monthly sums of $3.00 each to cover principal and interest on unpaid amounts at the rate of 6% per annum. If 90 be divided by 3, the result is 30, and, upon referring to tables, we find that the nearest figure to this is 30.351, which is the present value of one dollar, under the above conditions, for 33 months, which is the answer to the problem.

A table similar to the following can then be prepared, to show the various payments required for different amounts. The procedure for calculating earned profits is similar to that already described.

9-13. Statement showing the number of months required to pay off debts of various amounts as monthly payments in even dollars.

If the purchase price of a lot be....	$50.00	$60.00	$75.00	$100.00
The cash payment of 10% is......	5.00	6.00	7.50	10.00
Leaving unpaid.................	$45.00	$54.00	$67.50	$90.00
		Number of payments		
$ 1.00 a month will require......	52	64	83	120
$ 2.00 a month will require......	24	30	37	52
$ 3.00 a month will require......	16	19	24	33
$ 4.00 a month will require......	12	14	17	24
$ 5.00 a month will require......	10	11	14	19
$10.00 a month will require......	5	6	7	10

FORM No. 15—Instalment table (even-dollar method)

CHAPTER X

Interest

Time Sales

10-1. Time Sales in General.

In the case of time sales it is customary to charge the purchaser with interest on his unpaid balances. The interest is calculated in diverse ways. The matter is explained to the vendor in three different ways, and perhaps the simplest method of dealing with the matter is to consider it under these headings, viz:

1. Where interest is represented by coupons.
2. Where the contract or note provides for the periodic calculation and payment of interest.
3. Where the interest is added to the principal and the sum is divided into equal periodic instalments.

10-2. Classes of Interest.

Before entering into further details, it is well to remember that the interest now being considered may be divided into three classes:

(a) Interest which has been paid.
(b) Interest which is earned and is due, although it may not have been paid, which I shall call "earned interest" or "overdue interest."
(c) Interest which has not accrued and remains "unearned."

The interest in class (a) is simple and requires no explanation, but items falling under class (b) may often be put on the books as assets, which, it is expected, will be collected and turned into cash.

Items in class (c) occur only under heading No. 3, mentioned above, and will be considered later.

10-3. 1. Interest represented by coupons is by far the simplest method but is that which is least often followed. It calls for no calculations on the part of the bookkeeper, all that is necessary being a tickler in the forms Nos. 19, 20 and 21, par. 13-6 et seq. and each month a journal entry in such form as the following:

Overdue interest receivable	$..................	
To Interest receivable		$..................

and as collections are made they are credited in the cashbook to overdue mortgage interest, the balance of which shows the total amount remaining unpaid.

10-4. 2. A contract or note providing for periodic calculation is the plan which includes the greatest number of time sales. As is shown in par. 7-3, the amount to be paid by the purchaser is sometimes indicated by a note or notes, separate from the contract or mortgage; while in other cases the obligation is written in the body of the agreement. The treatment of interest is identical in both cases.

10-5. Importance of Definite Wording.

It is well to emphasize the remarks in par. 7-14, calling attention to the necessity of definite wording relative to this interest, for each contract should show clearly how and when and on what amounts it is to be charged and when it is to be paid. Frequently there is such a clause as "interest to be calculated semi-annually", which is so vague that doubt arises as to the amount on which the interest is to be charged and another doubt as to when it is payable.

It may be provided that "interest shall be payable semi-annually and shall be calculated at the rate of —% on the amounts remaining from time to time unpaid."

It must be remembered that if interest be periodically added to the principal, and included therein in the subsequent calculations of interest, compound interest is being charged, and in some states this is illegal.

10-6. When Interest Should be Entered on the Books.

The question: "When should interest earned be entered and charged to the purchasers?" is one to which no general answer can be given. In theory a concern is entitled to consider interest earned as an asset, but in practice it is often found unwise to do so, especially in cases where there are no separate coupons or notes (See par. 7-3), for it may not be paid, allowances may be deducted, or additional interest may be added for delay.

As a result of these conditions many vendors of subdivisions, especially where the selling prices are small, take no credit for interest until it is collected. Ticklers are carefully maintained and collections are pushed in every way, but no credit is taken until the money is received.

10-7. When deciding upon the method of entering interest, the amount of labor involved must be considered. In a busy office, if a bookkeeper be required to calculate all interest on each payment received over the counter, many mistakes are apt to occur. This may be met by giving a receipt for the total sum and apportioning the amount on the books later, but, especially in the rush which often accompanies the opening of a new development, such labor should be kept to a minimum, which is one reason for recommending the equal-payment plan.

I recall one office in which there were 12,000 time sales. In any such case, the calculation of interest places a great burden on the bookkeeper, especially if the payments be made monthly and the interest calculated semi-annually, for this involves six calculations on each contract each half year.

10-8. 3. Interest Calculated in Advance.

I have sometimes advised clients to adopt the plan under which the interest is added to the principal and the sum is divided into equal periodic instalments, because it reduces the labor of the bookkeeper and the possibility of errors. Perhaps because a similar method is used in instalment sales of motor cars and other personal property, the system has become popular, and it seems probable that it will be applied more widely to real-estate transactions. If clearly understood by salesmen it affords them an effective selling point, inasmuch as no further calculations are required, and a purchaser knows exactly what he will have to pay.

10-9. Methods of Calculation.

One method of calculating the amount of the required periodic payment is based on the assumption that the interest for the whole period, during which principal has been reduced until it is fully paid, is one-half of the interest at the full rate for the entire period.

For instance: In the case of $1,000 due in ten years, with monthly instalments, the calculations, at 8%, would be as follows:

Principal	$1,000
One-half interest for	
10 years at 8% ($800.00)	400
Total	$1,400

which, divided into 120 payments, gives $11.66 a month; whereas the true rate, as will be shown later, is $12.13, a difference of 47¢ a month, amounting in the whole to $56.40, which is a loss to the vendor; or, in other words, the vendor does not receive the 8% per annum which he thinks he is getting.

10-10. The calculation of the correct monthly payment presents no difficulties and is described in the preceding chapter.

In the case of the example given above, the contract or mortgage is charged with all the unearned interest because that interest is included in the notes which have been given or in the obligation which has been entered into by the purchaser. Obviously, this unearned interest can not properly be credited to the profit-and-loss account until it falls due, but on each date when interest falls due the unearned interest is charged with the amount falling due, which is credited to interest receivable.

10-11. Unearned Interest—Alternative Methods of Calculating.

(a) The monthly calculation of interest is extremely inconvenient in an office where there are many contracts involving such interest calculations. Various attempts have been made to simplify matters. One plan consists of calculating the interest half-yearly on fixed dates, these dates being the same in all contracts of one class. This reduces the work of the book-keeper, inasmuch as it concentrates all such interest calculations at two stated times each year instead of scattering them through every month of the year.

(b) Another plan which has been adopted with some success is to calculate the interest every six months on the balance then unpaid. This is convenient for the book-keeper, as it enables him to take his monthly trial balance and simply calculate the interest on each amount shown.

The effect of this method of calculating the interest is far-reaching—more so than would appear at first sight. For instance, if a purchaser made a substantial payment on the last day of the half year, he would, under the above arrangement, save half a year's interest on that payment. The vendor, instead of realizing an 8% interest, would realize perhaps 7½%. There is still another aspect to be considered. If a purchaser does not make any payments for a year or two, and interest is added on the outstanding balance each half year, he is, of course, being charged compound interest, which is illegal in many states.

(c) A third method, which yields results sufficiently accurate for all practical purposes, assuming that payments are made regularly, is to calculate the interest, say, April 1st and October 1st of each year, on the balances remaining unpaid at the middle of the half-year (in this case, on January 1st and July 1st). This is definite, simple and accurate and might well be generally adopted.

In any event, it is economical and convenient to arrange for all interest to fall due at fixed periods in the manner indicated, and it also tends greatly towards correctness.

10-12. Unearned Interest—Various Examples.

In order to compare the results obtained by the different methods of calculating interest, let us take the example of a contract for $5,000 dated January 1st and payable in monthly instalments of $100 each, interest being charged each half-year at the rate of 6% per annum on the balances remaining unpaid from time to time. Let us suppose that $100 is paid on each of the following dates:

January	30	May	20	September	15
February	15	June	30	October	10
March	15	July	30	November	20
April	10	August	15	December	31

If interest is calculated when each payment is made, the figures will be as follows:

Jan. 1	Principal		$5,000.00
June 30	Deduct six payments		600.00
			$4,400.00
	Add interest on $5000	$150.00	
	Less interest on $100 for:		
	5 mos. 0 days (Jan. 30 to June 30)		
	4 " 15 " Feb. 15 " " "		
	3 " 15 " Mar. 15 " " "		
	2 " 20 " Apr. 10 " " "		
	1 " 10 " May 20 " " "		
	17 mos.	8.50	141.50
			4,541.50
Dec. 31	Deduct six payments		600.00
			$3,941.50
	Add interest:		
	For six months on $4,541.50 at 6%	$136.24	
	Less interest on payments as above	8.50	127.74
	Balance at end of year		$4,069.24

If the interest is calculated on the balances remaining unpaid at the end of each half-year, the result will be;

Jan. 1	Principal due	$5,000.00
June 30	Deduct six payments	600.00
		$4,400.00
	Add interest for six months on $4,400 at 6%	132.00
		$4,532.00
Dec. 31	Deduct six payments	600.00
		$3,932.00
	Add interest for 6 months on $3,932.00 at 6%	117.96
	Balance at end of year	$4,049.96

If no payments were made the figures would be:

Jan. 1	Principal	$5,000.00
June 30	Interest for six months	150.00
		$5,150.00
Dec. 31	Interest for six months	154.50
		$5,304.50

Here the interest is compounded, which, under the laws of some states, is illegal. In such cases, the proper calculations, at simple interest, would be as follows:

Jan. 1	Principal	$5,000.00
June 30	Interest for six months	150.00
Dec. 31	Interest for six months	150.00
	Balance at end of year	5,300.00

If interest were charged on the "average balances," the figures would be as follows:

Jan. 1	Principal	$5,000.00
June 30	Deduct six payments	600.00
		4,400.00
	Add interest on balance of March 31st, viz.: $4,700.00	141.00
		$4,541.00
Dec. 31	Deduct six payments	600.00
		$3,941.00
	Add interest on balance of September 30th, viz.: $4,241.00	127.23
	Balance at end of year	$4,068.23

It must be remembered that, in all the examples, the differences will rapidly increase as the length of time increases.

CHAPTER XI

Cancellations and Exchanges

11-1. It is well for the owner of any property to inform himself as to the practice of the local courts relative to the cancelling of contracts. In the case of a time sale secured by mortgage, the deed to the purchaser and the mortgages given by him to the vendor are, of course, both recorded, and the agreement can be cancelled only by legal proceedings or by the purchaser's giving to the original vendor —voluntarily or for a consideration—something in the nature of a quit-claim deed to the property.

The case may be somewhat different in time sales under contract. It frequently happens that such contracts are not acknowledged, and therefore can not be placed on record; or, in case they are acknowledged and could be recorded, the purchaser may not care to avail himself of this right. In such instances there is nothing on record to show that the sale has been made. It may be contended that the contract in itself is sufficient evidence of the purchase; yet it is true in many instances that a contract, if properly recorded, is a stronger guarantee than a contract which has not gone through this formality.

11-2. The effect of recording varies in different states, and nothing more can be said here beyond the suggestion that those interested acquaint themselves with the laws prevailing in their states.

Probably the original reason for calling such contracts "leases" was the hope that, in case of a delinquent purchaser, resort might be had to something in the nature of a delinquent-tenant act, and that the tenant could be evicted by the simple proceedings applicable to an ordinary tenant who has not paid his rent.

As a general rule, however, the courts have held that, under such agreements, when the purchaser has made payments he has acquired an equity of redemption of which he can not be deprived without legal proceedings similar to those required for the foreclosure of a mortgage. This condition prevails generally, despite the many efforts of able lawyers to draw up an agreement which would enable the owner to regain possession of his property without expense or delay.

In practice this fact is frequently disregarded. In a large number of contract sales the property sold is unimproved and the purchaser does not take possession of it, does not fence it, nor take any other steps to show that he has an interest in it. He may make a few payments at the beginning of the contract and then tire of the transaction. Frequently he does not attempt to exercise any rights he may have, and, after a reasonable time, say a few months, the owner may regard the contract as closed without taking any legal proceedings. In many instances he merely notifies the purchaser that the contract will be or has been cancelled, closes the purchase account on his books and replaces the lot on his selling list. It is astonishing to discover how frequently this is done and in how few instances any trouble to the vendor arises from such action.

11-3. What Amount Remains Due?

In the process of cancelling a contract through legal proceedings, a condition may develop which, though somewhat peculiar and not infrequently overlooked, has a direct bearing upon the form of contract and the form of the account. It becomes of importance only in instances where the purchaser places every possible obstacle in the way of the owner who endeavors to obtain his rights, and it is therefore necessary for him to take advantage of every point in his favor. The point is that, time being the essence of such contracts, if a purchaser fail to make his payments as called for by the terms of the contract, the entire principal sum (and not merely those payments which are in arrears) becomes due and payable.

In such circumstances, it is sometimes wise for the owner to enter suit for the entire purchase price, and by so doing place upon the purchaser the burden of proving every payment he has made—thus adding materially to the difficulty of the defense. In some states such a procedure would not be allowable, and the suit must be brought for the balance of the purchase price, the amount being verified under oath. In any event, it is important carefully to consider the exact terms of each contract in which the concern is interested, whether a buying or a selling contract.

11-4. Cancellations of casual sales of real estate present no difficulty in their treatment in the accounts if it be remembered that, in all cases, there should be a journal entry, through the general journal or the sales journal, exactly reversing entries made when the sale was brought on the books. Any collections which may have been received are credited to profit-and-loss account (or to cancellation profits) and any expenses which may have been paid, for taxes, insurance etc., are charged to profit-and-loss.

11-5. Method of Entering.

Both cancellations of sales and exchanges of lots, either for other lots in the subdivision or for other property, are of frequent occurrence, and their entry in the records leads to confusion unless proper methods be followed. Fortunately these are simple and, whether sales be recorded through a sales journal or from any other source, the regular entry of the sale is in effect:

Contracts
  To Lot sales
  " Unrealized profits

and the amount of the contract is charged to the account of the purchaser in the sales ledger, to which are credited all payments made by him, while any charges which may accrue for interest, insurance and, perhaps, taxes are debited.

11-6. If the contract be cancelled, the original entry should be reversed by a red-ink entry in the sales journal, using exactly the same figures as those which record the sale. This will leave some balance in the account, consisting of payments made by the purchaser less items charged to him. To clear these from the account, any expenses which have been charged should be credited to this account and charged to the account to which they belong, i.e., taxes, expense, etc.; while the net amount paid by the purchaser should be credited to cancellation profits.

The same final result would be obtained if the net balance to the credit of the account, after making the cancellation entry, were credited to cancellation profits, and little objection to such a course could be made.

11-7. Consideration Paid for Cancellation.

A vendor desiring to obtain repossession may give to the purchaser a sum in cash in exchange for a deed or a release, as the case may be, in order to save time, legal delays and expense. Sums so paid may be charged direct to the contract on the sales ledger and will reduce the amount to be credited to cancellation profits.

11-8. Effects Upon Profits.

If the suggestions in this chapter be adopted all changes in profits care for themselves. If the property have been improved by the purchaser the value of these improvements need not be taken into the accounts (although they should be noted on the lot register) until the property is again sold, when they may lead to increased profits.

So far as the requirements of sound accounting are concerned, it is immaterial whether the property was sold on contract or on mortgage, but the regulations of the treasury department recognize differences which are discussed in chapter XIX.

It is important that the process of reversing entries be carried throughout the records and that the lots affected be marked appropriately on all lot records, indices and maps.

11-9. Exchanges.

The same principle applies to exchanges as that suggested for cancellations: that is, the entries should not show merely balances, or differences of values, but the property which is conveyed should be entered as a regular sale, and the property acquired should be entered as a new acquisition. In subdivision work exchanges are often for the purpose of substituting one lot for another, a half lot for a whole lot, etc. In each case the same principle should be observed.

In brief, it is best to make a separate entry for each property acquired or re-acquired and one for each property sold. Composite entries are to be avoided.

CHAPTER XII

Cash

12-1. The proper treatment of cash is so important that a special chapter is devoted to it. The rules are few and simple and are among the very few rules in accountancy from which there never should be deviation—rules which all accountants regard as essential and fixed.

These rules may be stated as follows:—

Rule 1. A receipt should be made, preferably in duplicate, for every penny received, no matter whence it comes.
Rule 2. All sums received should be deposited intact in the bank account, no deductions being made for any purpose.
Rule 3. All disbursements (except petty-cash items) should be made by cheque.
Rule 4. The cashbook should be reconciled with the bank statement at the end of each month.

These rules are applied as follows:—

12-2. As to receipts. There should be receipt books, form No. 37 or 74. (Pages 169 and 250.)

These receipts should be printed in duplicate for use with carbon paper. The original should be perforated to allow its removal, while the duplicate should be printed on tinted paper. They should be permanently bound, say one hundred in a book.

All receipts should be numbered consecutively, and unissued receipt books should be kept in a safe place, as carefully as cash. A record should be kept of each book issued and, in most offices, there should be only one book in use at a time.

Each receipt should show clearly the nature of the payment: e.g. "On contract No. 141, payment due December 12th," or "Payment No. 000." When all receipts in a book are issued, the duplicates should be filed with care, as reference to them may be necessary should any dispute arise in future years.

12-3. The receipts are entered from the receipt book into the cashbook, which should be a bound book of columnar form. The number of columns and the headings adopted depend upon the needs of each case. The only fixed rule is that, in addition to the special columns, there be one for miscellaneous items and one column for each bank in which an active account is kept.

Usually 6 to 8 columns are sufficient and those on the debit side may bear such headings as the following:

Contracts
Interest received
Options
Miscellaneous
Bank

Form No. 16—Cashbook

If a subdivision be handled, it is convenient to have two columns for the contract receipts: one for cash sales and the other for time sales. The entire profit is realised on the cash sales and this may be calculated and carried to a "realised profit" account each month, leaving in the unrealised profits only contracts which run through several years.

This division is suggestive merely, but all receipts should be entered consecutively in the cashbook, and the total collections should be deposited daily, or at short intervals, in the bank. The amount of each deposit should be entered in the "bank" column, the total of which will always equal the sum of the totals of the detail columns.

No deductions from receipts should be made for any purpose.

In any event, the last column on the left side should be reserved for the bank account and in it each deposit as it is made should be entered.

12-4. Disbursements.

The right, or disbursement, side requires few columns, as it is impracticable to distribute to their various accounts all the disbursements on the cashbook. Generally all payments may be entered in one column and the total amount charged to voucher account or to accounts payable.

Each item in the "contract" column should be posted to the individual account of the customer in the sales ledger, and each item in the "miscellaneous" column should be posted to the appropriate account in the general ledger, but the items in the other columns should be added and the totals posted to the general ledger at the close of each month.

12-5. As to Disbursements.

All disbursements should be made by cheque or by voucher cheque as the management may prefer. I am strongly in favor of a voucher cheque, of the following form:—

ENDORSEMENTS

........................ASSOCIATION No ________

OSHKOSH, WISCONSIN ____________________ 19__

PAY TO THE ORDER OF ____________________ $________

____________________ DOLLARS

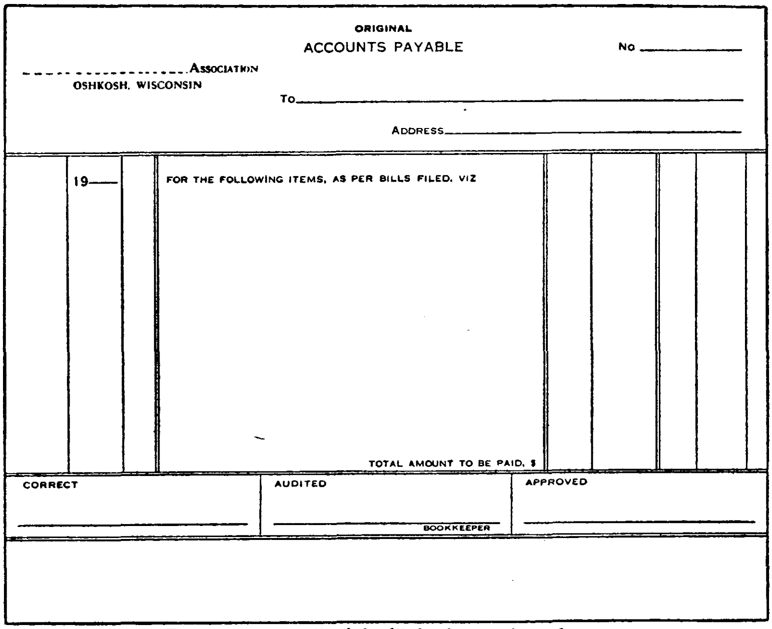
IN FULL FOR ACCOUNT SHOWN WITHIN

Oshkosh National Bank
Oshkosh, Wisconsin
3-4

.... ASSOCIATION

BY ____________________
TREASURER

FORM No. 17—"Original" front voucher cheque



ORIGINAL
ACCOUNTS PAYABLE
No __________

____________________ Association
OSHKOSH, WISCONSIN

To ____________________

Address ____________________

19____

FOR THE FOLLOWING ITEMS, AS PER BILLS FILED, VIZ

TOTAL AMOUNT TO BE PAID, $

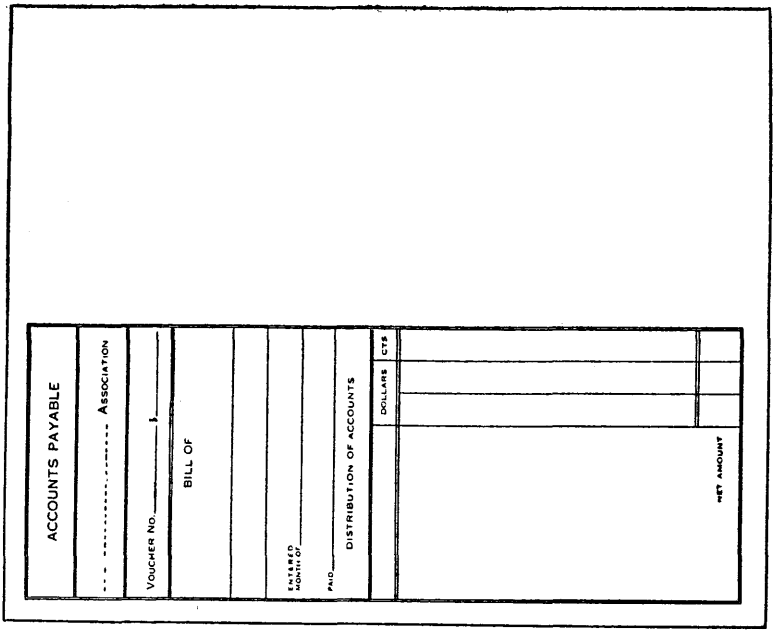
CORRECT

AUDITED

BOOKKEEPER

APPROVED

Form No. 17—"Original" back voucher cheque



ACCOUNTS PAYABLE

____________________ Association

Voucher No. __________ $

Bill of

Entered Month of

Paid

Distribution of Accounts

Dollars

Cts

Net Amount

Form No. 17—"Duplicate" back voucher cheque

CHAPTER XIII

Collections

13-1. Treatment.

Collections are, of course, of prime importance. Too often does it prove more difficult to collect payments as they become due than it was to make the original sale. Obviously, the first essential is to have a record showing particulars of all the amounts to be collected, and such records are usually known as ticklers, several forms of which are given below.

13-2. Available Cash.

Almost every process of accountancy may be performed correctly in more than one way—the great exception is the handling of cash. The only proper plan is to deposit daily, or at short intervals, the exact amount collected. From this rule absolutely no deviation should be permitted in any circumstances.

The cashbook and the bank book will then always show the total collections. However, some of the collections may be ear-marked for special purposes, such as releases from a mortgage, payments on contracts hypothecated, etc. In such cases some note of such items should be made in reports of collections and the total of such items should be deducted from the total collections. The remainder should be reported as "cash available for current purposes" or, briefly, as "available cash."

13-3. Collections by Banks.

In some offices all time-sales documents are deposited with a bank or trust company for collection. This in no way affects the principles to be observed but may affect the method of entering collections. The details may be entered in a cashbook as suggested here, or the reports of collections may be permanently filed and the totals only posted to the cashbook—a matter to be decided in each office.

13-4. Having obtained a record of all amounts payable, the next step is to notify the debtors. For this purpose a form similar to the following is useful:

COMPANY

CHICAGO, ILLINOIS

....19........

Contract No...........................

Payments on the above contract are due as follows:

Instalment No........................ Due......................................Principal $...........................

....Interest $...........................

....$...........................

....$...........................

....$...........................

Please remit promptly to this office, returning this notice with your cheque.

FORM No. 18—Collection notice

These notices are typewritten in duplicate on papers of two colors. The white copy is mailed a few days before the due date, and if the payment be not made the colored copy is stamped "SECOND NOTICE" and sent out about ten days after the due date.

These notices can be folded in half and mailed in a "window envelope."

13-5. The Bound Book Tickler.

In a small subdivision an ordinary diary may be used, having a page for each day in the year. At the beginning of a new year cash payments falling due may be entered under the due date, and extensions of the time of payment can be entered in the same way.

This simple form is well adapted to the sales department tickler on which to enter delayed sales. (See par. 25-7.)

13-6. In subdivisions of greater size a more elaborate form is required, such as form No. 19. Two of the principal advantages of this form are its compactness and the fact that the addition of all columns for a month gives the total nominal collections, with which to compare the collections actually made.

COLLECTION TICKLER

No.	Name	Date	Bal. Fwd.	Feb.	Mch.	Apl.	May	June	July	Aug.	Sep.
57	Adams, H. T. .... 343 Main st.	28	20.31	15.	15.	15.					
67	Ackerman, A. .... 54 First st.	15		18.			18.			18.	
112	Abernethy, W. .... 403 Forest st.	10	18.00	20.						20.	

(A page may be devoted to each letter of the alphabet.)

FORM No. 19—Columnar collection tickler

13-7. Collection Ticklers.

As soon as a time sale is entered on the records the amounts falling due in the coming year are also entered in the tickler. A folio usually covers one year or more.

Prior to the end of each month the items about to fall due are checked against the sales ledger, in order to eliminate all cancellations and to detect any charges which may have been made since the original entry. The column for the month is then added and the total is carried to a summary page at the back of the book. The total on this summary page gives the total payments falling due in any month.

13-8. Loose-leaf Ticklers.

Two types of loose-leaf ticklers are shown below, forms Nos. 20 and 21. The former was designed for clients having payments falling due quarterly, semi-annually or annually and was printed on sheets 5″ x 8″ to fit a loose-leaf binder, with an index tabbed with the months of the year.

Where interest is payable in addition to the principal, both amounts are shown on the face of the form.

The form should be written in quadruplicate, triplicate or duplicate, depending upon the number of payments falling due in a year. One copy is placed in the binder under each month in which a payment will be due, arranging all the sheets for each month in the order of date, so that the sheets for any one day will be together.

Prior to the close of each month the sheets for the following month should be checked against the sales sub-ledger to remove any cancellations and to note any changes which may have occurred.

From these corrected sheets collection notices are sent out and, when a payment is received, a check mark is put on the sheet against the current year and the sheet remains in the binder ready for the following year.

Should an extension of time be granted on any payment, a slip giving the particulars should be made and placed in the binder under the date on which the delayed payments would fall due.

This form is economical so far as writing is concerned, but it does not show the total amount falling due in any period.

NAME	No.
ADDRESS	Amount of each note $
	Lot
	Block

Month	April	October	Day 22
	1926	1926	
	1927	1927	
	1928	1928	
	1929	1929	
	1930	1930	
	1931	1931	
	1932	1932	

FORM No. 20—Loose-leaf tickler

13-9. Loose-leaf tickler, form No. 21, was designed for a concern selling lots to widely scattered customers and through many salesmen. One slip is made for each note falling due; all are filed in order of date and form the basis upon which notices are sent out. When a note is paid the slip is removed from the binder. If a note be renewed a notation is made and the slip is placed under the new date.

This form is also used for commissions becoming payable as collections are made, and from it the several salesmen are credited.

The method involves a good deal of writing where there are many notes covering one sale, but it is simple and satisfactory.

..................Pear & Apple Co.,....................................

Date journalized

Bills Receivable Record

.........................1935

Payments

Amount   Date 1935

Maker ....
Street address ....
Post office ....
Date............................1935 Amount $...........
When due 1935
When payable ....
Interest from..........................1935 Rate..........%
Endorsed by ....
Commission ....

Sent for collection to..

FORM No. 21—Loose-leaf tickler (alternative)

13-10. Still another method is shown in form No. 11 (page 58), which dispenses with the necessity of writing up a tickler but does not form so accurate and permanent a record.

13-11. Prompt Collections.

In many cases, the management is dependent upon collections for the funds with which to carry out improvements which have been begun. In every case the prompt collection of payments due is a matter of the first importance.

In some offices a small army is employed in this work; in others a few clerks under intelligent direction achieve equally good results. It has been found that the use of visible ledgers, with a complete set of colored signals, obviates the preparation of many lists. If such a ledger be compared monthly with the notes held out for payment a double and valuable check is readily obtained.

CHAPTER XIV

Classification of Accounts

14-1. It is always difficult to prepare a list of required accounts for any class of business. On the one hand, few concerns will require all the accounts which appear in any such list; on the other hand, many concerns encounter conditions peculiar to themselves, which call for special accounts. However, the following list includes the accounts most frequently found, and I believe that it covers the general requirements.

The accounts consist of two classes: first, the operating accounts which are closed to the profit-and-loss account periodically, and, second, the general ledger accounts consisting of those which, in some form, appear on the balance-sheet or its supporting schedules.

14-2. OPERATING ACCOUNTS.

EXPENSES (DR.)		EARNINGS (CR.)
Advances to salesmen	Interest receivable	Cancellation profits
Advertising	Life insurance	Commissions earned
Automobile expenses	Postage	Interest received
Charity	Repairs	Profits
Commissions earned	Salaries, officers'	Profits realized
Commissions paid	Salaries, office	Profits unrealized
Directors' meetings	Stationery & printing	Rents
Expenses—general	Taxes	
Expenses—legal	Transportation	
Insurance, fire, etc.	Travel	
Interest payable		

14-3. GENERAL LEDGER ACCOUNTS.

Accounts payable	Automobiles
Accounts receivable	Buildings

General Ledger Accounts (*continued*)

Capital stock	Mortgage expenses
Cash on hand	Mortgage insurance
Commissions—contingent	Mortgage taxes
payable	Notes payable
Construction	Notes receivable
Contracts, payable	Office furniture & fixtures
receivable	Options granted
Development expenses	" held
Dividends unpaid	Petty cash
Expenses of subdivisions	Prepaid expenses
Improvements	Profit-and-loss account
Interest, overdue payable	Reserve for depreciation
" " receivable	" " development
Judgments	Suspense
Lands (including subdivisions)	Surplus
Mortgages payable	Treasury stock
Mortgages receivable	Undivided profits
Mortgage deficiency account	Unrealized profits
Mortgages in settlement	

14-4. The nature of each expense account is indicated by its name. A few accounts calling for special treatment will be discussed in other chapters, while the general ledger accounts will be discussed in chapters XXIII and XXIV, on the balance-sheet.

It will be noticed that the expenses may be divided into two principal classes,

1. Sales expense
2. Maintenance expenses.

General expense and overhead expenses may be included in one or the other of these.

14-5. Taxes.

One item always present is current taxes on improved property. It may be carried among the maintenance expenses, but it should be remembered that the individual account of each property should show what taxes have been paid. Taxes for assessments, improvements, etc., "assessed against local benefits of a kind tending to increase the value of the property assessed", should, of course, be capitalized and are not deductible expenses in the eyes of the treasury department.

14-6. In accounts which include sub-divisions, there is usually a large number of expense accounts, which may be classified as:

Selling expenses
Maintenance expenses
General expenses and, sometimes,
Overhead expenses

The first of these includes the following:

1. Advertising
2. Commissions
3. Salaries
4. Transportation
5. Office expenses
6. Overhead

14-7. In the case of large concerns, each of these may be subdivided as often as the management may wish, in some such form as the following:

Advertising	Circulars
	Radio
	Signboards
	Salaries
	Newspapers
	Magazines
Commissions	These are dealt with in chapter XV
Salaries	The salaries paid to advertising managers and their staffs
Transportation	Motor busses
	Motor cars
	Each of these may be further subdivided to show the cost of gasoline and oils
	Repairs and tires
	Storage
	Rentals
	Miscellaneous

	Again, if busses be run to various destinations it may be desired to show separately the expenses incurred on each route
Overhead	An arbitrary portion of the general expenses of the concern.

Any such classification is too voluminous to appear on the general books. The general ledger may show all such expenses under one head, or it may show divisions such as the six mentioned above, but all further details should be ascertained from expense-analysis books.

14-8. Maintenance Expenses.

Maintenance expenses vary so greatly that no definite list can be given. They include not only the maintenance of buildings but sometimes also the upkeep of streets, the clearing of vacant lots, the care of trees, shrubberies and flowers and other items, any or all of which are current expenses of operating.

14-9. Deferred Expenses.

Deferred charges are amounts which have been brought into the accounts, but for which full benefit was not received at a specific time. The term is elastic, and the selection of items which may be included in any case must be left largely to the good judgment of those concerned; but the provision in the treasury regulations 77 Art. 341, which requires that all expenses be deducted in the year in which they are paid, incurred or accrued, as the case may be, must not be overlooked. While it is provided that the commissioner may modify this ruling in certain circumstances, it is wise not to ask for or to rely on modification of rulings.

Salaries and commissions often are paid in advance. This subject is considered in chapter XV, but it should be noted here that salaries may be a proper charge to deferred expenses. Rents and taxes also may belong in this class. One of the most important items is advertising or publicity; large sums may be spent in newspaper or radio or indeed any form of advertising, the benefits of which will not accrue in the immediate future.

CHAPTER XV

Commissions

15-1. In casual sales of real estate or even in the sale of tracts the treatment of commissions seldom presents difficulty. Payments may be deferred until collections are made, but such cases require only the entry of the transactions on the books and the setting up of a contingent commissions payable account.

15-2. On Subdivision Sales.

However, the treatment of commissions by companies engaged in selling subdivision lots often presents, perhaps, more difficulties than does any other portion of the accounts. Although these difficulties are chiefly mechanical and are due to the volume of detail rather than to questions of theory, they demand careful consideration, for, while the sale of a lot is a transaction between two parties only, there may be a number of persons who share in the commissions. This difficulty is increased by the fact that most sales in subdivisions are time sales, the commissions on which do not become payable until certain collections have been made. The records should be so kept that accounts with individual salesmen may be prepared and verified.

15-3. Organization of the Sales Department.

When organizing a sales department, special care should be taken with regard to the method of calculating and of paying commissions. The original plan should be continued throughout the operations; otherwise much confusion is sure to arise. There are three important points to be c)nsidered;

1. Selection of those who are to receive commissions.
2. Commissions which each class of employees is to receive.
3. Time when payments become due.

15-4. I have known cases where commissions were divided among the following:

Sales manager	Bus captain
Assistant sales manager	Closer
Division manager	Publicity or advertising manager
Crew manager	Treasurer
Solicitor	Salesman with a car
Lecturer	Salesman without a car

"Bird dogs" (Scouts who bring potential buyers to the attention of salesmen.)

Conditions may vary in manner such as the following:

In small offices commissions are usually paid only to the salesmen, but in larger organizations they are also paid to many officers and other employees, as indicated above.

The first payment is often consumed by commissions on payments not yet received, but in "boom" times the mere request of a salesman is not sufficient to justify such advances.

Commissions may be current, some deferred or some contingent.

A number of salesmen may be interested in any one sale, the amount payable to each may differ from all the others, (ranging from, say, ½% to 15%), and the terms of payment may vary.

The amounts paid for commissions may range from 10% of the sales price, in the case of a well established suburban development, to 35% or even higher in other cases.

15-5. The Treatment of Commissions.

As a rule, commissions are payable as collections are made, in some cases all the early collections being applied to the payment of commissions, while in others a portion—e.g. 50% of the first collections—is paid. In all such cases the payment of commission depends upon payment by the purchaser.

In some instances commissions are payable only as collections are made, e.g., 10% of each payment throughout the contract; and occasionally commissions are not payable until the final collections are received by the vendor.

Still another complication may arise when contracts or mortgages are placed with a bank or trustee for collection. Then the concern collects from the customer only the first payment, and commissions remaining unpaid are met by or through the trustee.

If sales be few, if only one or two salesmen be interested and if commissions be paid quickly, it may be sufficient to charge the unpaid commission to commission account and to credit the several salesmen; but such cases are rare, and, even if only four or five persons are interested in commissions, a more detailed method must be employed.

15-6. Advances.

It is a not uncommon practice to make advances to salesmen, sometimes in uniform periodic payments, such as $50 a week, and sometimes by varying amounts paid at irregular intervals, all such advances being chargeable against commissions earned by the respective recipients. All such advance accounts should be discouraged and kept at a minimum.

15-7. Accounts Affected.

From what has been said it will be seen that always two and sometimes three accounts are affected:

1. Commissions account, to which are charged all commissions on all sales. This is an operating expense account, which is periodically closed out to the profit-and-loss account.

   The method and time for deducting commissions for income-tax purposes is discussed in chapter XIX.
2. Contingent commissions account, which is credited through the sales journal with commissions on all sales and is charged through the commissions record with the commissions as they become payable and are earned. These in turn are credited to advances or to the salesmen individually. The balance of the account is a liability contingent upon collections on the sales shown as assets on the balance-sheet.
3. "Advances" account, to which are charged through the cashbook all payments made to salesmen.

15-8. Entering Commissions on the Books.

The method of bringing earned commissions on the books is dealt with below, but whether the transaction be a cash sale or a time sale, it is recommended that all the commissions be treated alike and be passed through the contingent commission account, for the sake of uniformity.

Likewise, when advances are made to salesmen, I have found that the simplest and clearest plan is to charge to "advances" account all sums paid for or on account of commissions, be they in advance or commission on cash or on time sales. If this be done, the difference between the "advances" account and the contingent commissions account shows the amount of commissions remaining unearned and, therefore, contingent.

If no advances be made, all payments to salesmen are charged direct from the cashbook to the contingent commissions account.

Whether the commissions be shown on the sales journal (par. 7-7) or through the general journal, the entry to be made is of the form:

Commissions	$..................	
To Contingent commissions		$..................

The advances are always charged direct from the cashbook.

15-9. Individual Accounts with Salesmen.

In addition to the accounts in the general ledger, it is necessary to maintain an account with each person who shares in the commissions. This requires a large amount of detail in salesmen's accounts. There are two basic methods of keeping these accounts, namely:

1. Under the names of the salesmen.
2. Under the name, or number, of the sale.

Both systems are subject to variations, but in all cases they should enable the bookkeeper to prepare periodic statements for each salesman. The selection of the method depends upon the personal preference of the accountant and on the volume of business.

Where the number of salesmen is small, say six or eight, I prefer method No. 1, which obviates the necessity of keeping a salesmen's ledger, and is as follows:

15-10. The commission register under salesmen's names is kept in a ring binder, taking sheets 11 inches or 14 inches long, and is headed as shown below. The names of the months vary, but they commence with the month in which is made the first sale entered on any given page—in the example this is January.

Inserted after this page is a short leaf (indicated by the heavy line) for each person sharing in any commissions.

Every sale is entered in numerical order from the sales journal, as indicated, and the total amount of commissions is shown under "total commissions", the sum of which must equal the total of the commissions account and the sales journal (see par. 7-7). The amount due to each salesman is entered on his page.

	Total Comm.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
				William Baker					
JANUARY									
142 Timson.....	$ 100.00								
143 Adamson...	320.00								
149 Cuppedge...	75.00								
150 Marz.......	60.00								
151 Hoover.....	40.00								
152 Miller......	150.00								
153 Lamb......	80.00								
154 Walker.....	√								
170 Bright	55.00								
171 Fisk........	30.00								
Total for Jan..	$1,480.00								

FORM No. 22—Commission record

15-11. 1. Let us suppose that our record commences with January. At the end of January, all sales made in that month will be written in with a typewriter, showing sale number, name and total commission, and the word "January" is written at the head of the list.

2. The commissions will be added and the total must agree with the amount charged in January to "contingent commissions", proving that all commissions are entered in the commission register.

3. If William Baker is the first name in the list of salesmen when arranged alphabetically, his name is typed as shown.

4. Each of the columns is headed with the name of a month, as in the example.

5. Loose leaves are cut to the size indicated by the heavy black line, and one such sheet is devoted to each salesman and to each manager, his name being typed at the head of his page in place of William Baker.

6. Each commission shown in column 1 is then entered on the sheet of the salesman to whom it is to be credited. In the example, four are credited, in whole or in part, to William Baker.

In sales No. 152 and No. 171, the commission is split, Baker being credited with a portion and the remainder divided among other salesmen, which is entered on their short sheets, similar to that for Baker.

7. It is assumed in the example that salesmen are to be paid their commissions as collections are made, and that all collections are so credited until the entire commission is paid.

8. At the close of each month one takes the sales sub-ledger, showing the individual accounts with purchasers, and from it enters in this register the total payments made on each sale upon which commissions have not been fully paid, until the entire commission is credited, e.g., sale No. 143 yields $10 in February, March, April and May. In the last month it is fully paid and a heavy horizontal line is drawn. These entries are made on the page of the salesman who is credited with the commission; e.g., Baker's sheet shows all receipts on sales No. 143 and No. 151 and his share of the receipts on sales No. 152 and No. 171.

9. Each column headed "January" is added and the totals are carried to a summary sheet, the total of which will show the total commissions earned in January.

10. At the close of February and each succeeding month similar entries are made.

11. Each sale must be examined each month until the commission is fully earned. It is inconvenient to place a $\surd$ in the monthly

column. If no payment be made in any month, when the commission is completed, a heavy line may be drawn, as indicated, and a V placed against the first column, (as in No. 154) showing that no more commission is to be entered.

15-12. 12. At the close of each month a statement is rendered to each salesman, showing the commissions earned in that month on all his sales which are still open and also the contingent commissions credited to him in that month, as follows:

STATEMENT OF COMMISSIONS
of
WILLIAM BAKER
FOR MAY

	Contingent	Earned
No. 143 Adamson (Jan. sales)		$10
151 Hoover		5
152 Miller		10
Feb.		
March		
April		
186 Brenner (May sales)	$20	10
190 Hall	80	40
191 Milner	60	60
	$160	$250

Balance brt. fwd. (i.e.) advances in excess of earned commissions		$200
Advances in May		250
		$450
Earned in May		250
Balance forward	Dr.	200

Totals to date	Advances	Contingent	Earned
Brought forward	$1,100	$1,600	$900
Add May	250	160	250
Carried forward to June	$1,350	$1,760	$1,150
Contingent in excess of earned		$610	
Advances in excess of earned		200	
Contingent in excess of advances		410	

FORM No. 23—Commissions—monthly statement

If the salesmen's monthly statements be carried to a summary sheet, the total contingent commissions and the advances should agree with the totals of these accounts in the general ledger.

The advantages of preparing these monthly statements are obvious—not only do they show the salesmen each month the conditions of their accounts, but they bring out clearly the relations between the contingent commissions, the advances and the earned commissions.

In some offices it is the practice to credit each month the advances account on the ledger with the commissions earned, the balance being an asset or a liability, as the case may be, but I prefer not to make such entries until the books are closed. To do so prevents checking the totals of these accounts, as shown on the salesmen's accounts, directly against the trial balance. The difference can be shown on the monthly statement of operations where such a deduction can be made clearly.

15-13. Commission Ledger.

There is on the market a commission ledger of the following form (No. 24), which may sometimes be used advantageously, especially where each contingent commission becomes earned at one time. Unfortunately it often happens that the conversion of a contingent commission to an earned commission may require several months. In that case this form can be used if, say, five or ten lines be devoted to each sale.

COMMISSION STATEMENT

Name .... Date........................

Address .... Telephone...............

		Folio and	CONTINGENT COMMISSIONS			COMMISSIONS PAYABLE		
Date	Desc'pt'n.	Cheque No.	Charges	Credits	Bal.	Charges	Credits	Bal.

FORM No. 24—Commission record (by salesmen)

15-14. System Based on Each Sale.

There are two distinct means of following the system based on each sale. Either of them may be used:

(a) By keeping a card, or preferably, a loose-leaf ledger containing a sheet for each sale.

(b) By maintaining a commission account on the customers' account in the sales ledger.

If the whole of each commission be payable to one person, or even to two, the latter plan may be used, but if there be many participants the former is preferable. In either case it is usually necessary to keep an account with each salesman.

................COMPANY

SALE NO. 143

LOT 142 SECTION F — DATE OF SALE 2 JAN. 1931 — AMOUNT OF SALE $1,600.

BUYER NO. 143 ADAMSON — TOTAL COMMISSION $320.

Name	%	Total Com.	Commissions payable				Payments received		Balance of current comms.
			Jan. 2	Feb. 6	Mar. 3	Apr. 4	Date	Amt.	
Salesman Baker	5	80.	40.	10.	10.	10.	Jan. 2	$160.	$160.
Salesman Johns	5	80.	40.	10.	10.	10.	Feb. 6	40.	120.
Salesman	...	....	....	....	....	....	Mar. 3	40.	80.
Sales Mgr.	5	80.	40.	10.	10.	10.	April 4	40.	40.
Asst. do.	...	....	....	....	....	....	......	......	....
Solicitor	1	16.	8.	2.	2.	2.	......	......	....
Closer	2	32.	16.	4.	4.	4.	......	......	....
Treasurer	½	8.	4.	1.	1.	1.	......	......	....
Crew Mgr.	1½	24.	12.	3.	3.	3.	......	......	....
Etc.									
Total	20	$320.	$160.	$ 40.	$ 40.	$ 40.			

FORM No. 25—Commission record (by lots)

15-15. In this example appears the same sale (No. 143) as in the former example, the division of the entire commission being shown. At the end of April, a total of $40 remains unpaid.

A salesman's ledger in a form such as the following is also maintained:

Sheet
No.. Name...
Credit rating.................... Credit limit .... Address...
....

Contingent commissions					Commissions payable				
Date	Folio	Charges	Credits	Balance	Date	Folio	Charges	Credits	Balance

FORM No. 26—Commission ledger

A sheet is devoted to each person sharing in the commission. In the left-hand columns are entered, from the total commission column and commission register, each commission earned by the salesman, and as entries are made in the columns headed "commissions payable" corresponding entries are made on the right-hand side of the salesman's sheet to the credit of commissions payable. As cash is paid to the salesman the amount is posted to the debit of commissions payable.

Therefore, the difference between the total of contingent commissions and commissions payable shows the amount unearned, and the difference between the debit and credit columns of commissions payable shows the cash payable to the salesman.

15-16. Another method of recording sales is shown on the following form, which is convenient when there is little splitting of commissions.

Particulars of notes — Date of contract.......... Contract No.

No.	Date due	Amount	Date paid		
				Total consideration $........	Purchaser....................
1				First payment $........	
2				Agent............	
				Commission %=$........	Lot....Block........
				Sub-agent	Tract...... in........
				Commission %=$........	

						COMMISSIONS			
Date	Dr.	Date	Dr.	Cr.	Balance	Date	Paid to	Dr.	Cr.

FORM No. 27—Commission—contract ledger

When using this form it is necessary to keep salesmen's ledger sheets in order to show the entire amount of any individual salesman's commission.

15-17. Cancelled Commissions.

When sales are cancelled and contingent commissions are also wiped out, entries may be made in red ink and posted from the sales journal to the respective ledger accounts and to the other records; and no confusion should arise.

When the transactions affecting commissions are numerous, it becomes necessary to keep ledger accounts showing the condition of each such account. Form No. 27 may be used for this purpose.

15-18. Over-riding Commissions.

The commissions paid to the sales manager and to all the other officers—except salesmen—such as are indicated in par. 15-4, are frequently referred to as "over-riding" commissions. Record of them may be kept in the manner indicated in par. 15-10 or par. 15-14, as may be preferred. The original record of these usually appears in the sales journal, from which the items are posted to the account of the officer who is to be credited.

15-19. Contingent Commissions. (Sometimes called deferred commissions.)

All commissions which are not payable until customers have made stipulated payments are contingent commissions, for they are not direct liabilities until those payments are made. In view of this fact, it is not necessary to show them among the direct liabilities on a balance-sheet, but they may quite properly be shown as a deduction from the unpaid balances of the contracts or other sales through which they arise.

15-20. For rules regarding commission see par. 25-17 et seq.

CHAPTER XVI

Depreciation

16-1. It is general, perhaps a universal, practice for real-estate concerns to make some allowance for the depreciation of improved properties. Volumes have been written on the subject and widely divergent opinions are held regarding it; but this is not the place in which to discuss them. For our present purpose, we may take a definition by R. H. Montgomery, as follows: "In an accounting sense, an allowance for depreciation is an allocation of the entire cost of depreciable assets to the operating expenses over a series of fiscal periods." This means that in the case of any depreciable asset, the cost of which is known—or ascertainable in some way—an estimate is made as to the number of years that asset will last, the cost is divided by that number and the resulting quotient is charged annually as an expense. There may be variations of method, but this is the general scheme and, as land is not subject to wear and tear, depreciation can not affect it but applies only to the improvements which have been made on it.

16-2. Division of the Cost of Real Estate.

This fact is the cause of the first rule on this subject, namely that the real-estate records must always divide the values of real estate into at least two parts:

1. Land
2. Improvements

Frequently the value of the improvements should be divided into values of buildings and equipment.

These principles are now so generally recognized that it is not necessary to dwell upon them. Owners know that depreciation should be determined and provided for if they are to obtain an accurate statement of the results of their operations; many have learned by experience how important a part it plays in the adjustment of losses by fire; and all have learned something of the requirements of the treasury department in income and estate taxes.

16-3. It is impossible to establish any scale of rates at which depreciation should be charged. Quality of labor and materials and the care which has been taken of the property have their effect, while climate causes wide variations, as wood and metal will last far longer in a dry, cool climate than they will in a warm, moist one. It is true that the probable life of buildings, assumed when determining rates of depreciation, has been greatly underestimated. One has only to look in any direction to see brick buildings far older than their estimated life of, say, 50 years, and frame buildings which are still sound after more than 25 years of life. As a result of this the rates generally used would, eventually, lead to a reserve for depreciation equal to the original cost and, as the buildings remain serviceable, there would be established later something akin to a hidden reserve, for the buildings would be there and the books would show that they had cost nothing.

16-4. Obsolescence.

In the larger cities it is common to see a perfectly sound building torn down to make way for a modern structure. This is not due to depreciation, but to obsolescence, which is an entirely different matter; and the two must not be confused.

16-5. Methods of Calculating Depreciation.

The charge for depreciation is usually determined by one of the following methods:

1. By dividing the cost of the building by the number of years that building is expected to last and by writing off annually an amount equal to the quotient obtained; or by writing off periodically some fixed sum determined after considering all the facts of the case.
2. By writing off periodically a fixed percentage of the original cost.
3. By writing off periodically a fixed percentage of the diminishing value.
4. By adding to the cost annual interest, and writing off annually a sum which will reduce the value to zero or to the junk value. (This is known as the annuity plan.)
5. By appraisal of the property.

The second method is the one most generally adopted. The treasury department has issued suggested rates, based on the experience gained through the establishment of the income tax, but these are subject to change and the department has recognized that the rates heretofore generally charged—and allowed—were too high and has lately issued instructions that all depreciation charges are to be closely examined.

16-6. Reserve for Depreciation.

Whatever the amount of depreciation may be, it should not be credited to the property account, but to such an account as "reserve for depreciation." The property accounts should show the actual cost of the properties. This may no longer represent the value, or the replacement value, or the selling value, or any other "value" especially in times of fluctuating currency values, but it is the only figure which does not change, and it is the only means of maintaining historical accuracy in the accounts. If this basic figure be changed on account of appraisal, or of changing market prices, it loses all meaning; if it be maintained it can always be modified in balance-sheets and other statements, provided, of course, that the modifications are clearly explained.

16-7. Depreciation Statements.

The demands for full information which are made by the treasury department have led to the general use of a statement prepared on the following lines and usually on columnar paper:

Column	1	Description of the property
	2	Date of acquisition
	3	Cost
	4	Additions in prior years
	5	" in the current year
	6	Deductions in the current year
	7	Expected life, expressed in years
	8	Annual rate of depreciation
	9	Amount of depreciation charged in former years
	10	" " " in current year
	11	Total amount of depreciation
	12	Depreciated value of property at close of current year

FORM No. 28—Depreciation statement

16-8. Appreciation.

While all buildings and other improvements are subject to depreciation, it is otherwise with the land on which they stand. In normal times, well situated land, whether urban, suburban or agricultural, is apt to increase in value, that is, in the price which it would bring on the market, and some owners have felt that such increase, or appreciation, in value offsets any depreciation which may have occurred in the improvements; but such an argument is fallacious. If a building be destroyed by fire and if reasonable depreciation has not been brought into the account, a heavy loss will be shown on the ledger, however much the value of the land may have increased.

16-9. Where to Credit Reserve for Depreciation.

The best practice today among the leading accountants in the country is to have the land accounts—by whatever name they may be called—show the cost of the property and to place the depreciation in a credit account such as reserve for depreciation. When a balance-sheet is prepared, the real estate should be shown at its cost and depreciation should be deducted, the remainder being carried as depreciated value.

16-10. Depreciation of Leasehold Property.

Where land is held under a lease, the conditions are different, for, at the end of the lease, such improvements as are now considered revert to the lessor. Consequently, the remaining life of the lease, not that of the improvements, is the measure by which depreciation is determined. The cost of such improvements divided by the number of years which the lease has to run will be the amount of the annual charge for depreciation.

16-11. Depreciation of Equipment.

In most real-estate concerns—unless engaged in development or maintenance—the equipment involved is of comparatively small value and consists chiefly of office furniture and fixtures, with, perhaps, motor cars. A generally accepted plan has been to charge off 10% annually on the former and 25% annually on the latter; but in future owners may be required to furnish a statement as to the present condition and probable life of each depreciable asset at the close of the tax year.

CHAPTER XVII

Insurance

17-1. Various Forms of Insurance.

The real-estate owner of today may be interested in many forms of insurance and may have occasion to carry all of the following:

1. Fire insurance on buildings under construction (builder's risks)
1-a. Completed buildings
1-b. Equipment
1-c. Various improvements
2. Liability insurance on motor cars, elevators and improvements of all kinds in progress and on employees
3. Theft insurance on motor cars
4. Life insurance (a) on officers of the company
   (b) on the lives of purchasers
5. Title insurance on titles to properties
6. Land-value insurance on the future value of lands owned

17-2. It is not necessary to dwell on items Nos. 1, 2, and 3, beyond warning owners that they should make themselves fully conversant with the requirements of each case and see that they have obtained in fact the protection which they wish. They should ascertain what co-insurance clauses apply to each case, and whether or not such items as foundations, out-buildings, etc., are or are not covered by the policies. A record of all outstanding policies should be maintained.

17-3. Insurance on the Lives of Officers is becoming more general each year and, when carried, should have an account devoted to it, in which all premiums paid are shown. Some concerns charge such premiums direct to the profit-and-loss account, while others carry all of them as an asset on the balance-sheet. The best course lies between these two extremes: all premiums should be charged to a life-insurance account, which, at the close of the fiscal period, is credited with the cash-surrender value of the outstanding policies, and the balance remaining is charged to the profit-and-loss account. The cash surrender value is shown among the assets in the balance-sheet, for it may be converted into cash at any time or may form security for loans.

If the entire amount of the premiums paid be carried to the balance-sheet, there should be an explanatory entry on the statement, in a foot-note, or in the comments, giving the cash-surrender value. Otherwise the balance-sheet will contain a misleading and incorrect amount among the assets.

17-4. Insurance on the Lives of Purchasers.

It is not uncommon practice for the purchaser of a large tract to insure his life in favor of the vendor, but such transactions are simple and require no explanation.

Of late years, there has been a growing feeling in favor of insuring, in some way, the lives of the purchasers of lots in subdivisions and, particularly, the lives of purchasers of cemetery lots.

17-5. Insurance on the Lives of Lot Purchasers.

As in all forms of insurance, the security desired may be obtained by any one of three methods:

1. By obtaining insurance from an insurance company.
2. By setting aside certain amounts periodically to form a sinking fund of sufficient size to meet the probable demands which will be made upon it on account of deaths of the purchasers.
3. By trusting to luck and agreeing to give title to lots in cases where purchasers die before their payments are completed.

17-6.

A few years ago it was possible to obtain a form of group insurance on the lives of lot purchasers for the terms of their respective contracts, but it was found that these contracts were in force for so short a time that the business was not profitable to the insurance companies and it was abandoned. I know of no company which will furnish such insurance today.

17-7. Straight-life Policies.

However, inexpensive straight-life insurance may be obtained from the old, well established, mutual companies, and the following figures may be accepted as indicating very closely what may be done.

Let us take the example of a healthy person, 35 years of age who undertakes to buy a lot for $500 under a contract extending over three years.

If such a life be insured for $500, the premiums—less the dividends accruing—for the three years probably will amount to about $34.25. At the end of that time the policy will have a cash-surrender value of about $22.61, so that, if the policy be surrendered by the subdivision company at the end of three years, the net cost to that company will have been $11.64 (that is $34.25 less $22.61), or $3.88 a year, or about three-quarters of one per cent. per annum.

If the insured purchaser die at any time within the three years, the company will receive—in addition to the payments made by him on account—the full amount of the insurance, $500, thus reaping an additional profit above that produced by the sale itself.

If an insured purchaser complete his contract, the company may surrender the policy and receive therefor $22.61, or it may sell it to the purchaser for this amount if he desire to continue it. In the latter event he obtains, at the age of 38, insurance on which the premiums are based on the age of 35—a material reduction to him.

The results shown here are illustrative, but similar results are obtained with varying terms and varying ages. For example, if the assured were 35 years of age and the contract ran for five years, the premium paid, less dividends would be about $55.07 and the cash-surrender value would be about $36.94, leaving net expenditures for the five years of about $18.13, or $3.65 a year, or about three-quarters of one per cent. per annum. If the assured were 45 years of age and the contract ran for three years, the net premiums would be about

$49.88 and the cash-surrender value about $16.84 or $5.61 a year or slightly over 1% a year.

While no insurance company guarantees the amount of dividends which it will pay, the figures used here are based on what have been paid in recent years and may be expected in years next to come.

It is understood that such insurance is written only after a medical examination; clauses in the sales contracts relating to the insurance should state specifically that they are subject to the insurability of the purchaser. The expense of all such examinations is borne by the insurance company. In all such policies the real-estate company should be named as the beneficiary and should retain possession of the policies.

The scope of this insurance may be extended by an undertaking on the part of the company to refund to the estate of the deceased purchaser the total amount which he shall have paid. Under such conditions, the concern collects the insurance, thus ensuring the receipt of its full profit on the sale, while the return of instalments made will be sufficient, in most cases, to defray the cost of the funeral—thus accomplishing a two-fold purpose of ensuring the real-estate company against loss and providing funeral insurance for the purchaser.

17-8. Sinking Fund.

The various tables of life expectancies show that about 2.7% of living people aged 35 years will die in the succeeding three years, but in the case of lot purchasers the percentage is far smaller than this. I know of no data available to determine this percentage exactly, but such experience as I have had with many thousands of instalment sales, as well as the experience of others, indicates that 1½ per cent. is a liberal allowance.

If this be accepted, it means that, on a contract such as is described above, if the company set aside 1½% a year, that is $7.50 a year for three years, or $22.50 in all, and invested this, the amount of the fund so created would be insufficient to satisfy the unpaid balances of all contracts made by purchasers who died before expiration of the three-year term.

17-9.

Under the third method all that is necessary is to insert in the contract of sale a clause providing that if the purchaser die during the term of the contract and if all instalments have been paid to date, the concern will convey title to the estate of the deceased without further payment.

Such agreements do not provide for any medical examination and, therefore, apply equally to all purchasers.

Obviously this method relieves the concern of the necessity of paying any premiums or creating any trust fund. In the entire transaction the only thing which the company loses is the actual cost to it of the lot which is conveyed, which is usually a small fraction of the sale price and is covered by the first payment made by the purchaser.

While no statistics are available to indicate the average cost of such insurance, concerns which have adopted this plan confirm my own experience that the percentage of deaths among purchasers is so small that the cost to the concern is almost negligible, especially in the case of cheap lots.

However, it must be remembered that the conveyance of a lot while it is only partly paid for involves the cancellation of profits which have been entered in some form on the books and, therefore, will reduce the profits shown on the profit-and-loss statement.

17-10. Whatever plan may be adopted, it must always be remembered that this form of insurance is carried for two specific reasons, namely:

1. To assist the salesmen to make more sales.
2. To assist the administration in making more collections.

Probably the first of these reasons is strengthened if the salesmen can assure prospective purchasers that policies will be taken in some well-known company with a world-wide reputation. Such a statement will have more weight than a mere promise to convey property. In addition a policy of this sort gives the purchaser an opportunity to obtain extremely inexpensive life insurance or, under the extended plan, provides him with some funeral insurance.

Regarded from the sales manager's point of view, the second method has nothing to recommend it. Its attractiveness is solely for the financial officers, as it assures them that their profits will not be impaired in the event of death of the purchaser.

The third method gives the purchaser as ample security as does the first and costs very little, but it gives the purchaser no additional insurance and no funeral benefits.

17-11. Phraseology of Sales Contracts.

Whatever form of life insurance be given, it is of the first importance to see that the sales contract is so worded that the validity of the insurance depends, not only on the insurability of the life of the purchaser, but upon the fact that all instalments have been paid on the contract and that there are no arrears of any kind at the time of his death. I believe this to be the greatest aid to collections which has yet been devised.

While an accountant can only suggest methods to be employed and can not dictate, I add that, if anything be worth doing at all it should be done in the best manner possible, and a long, wide and intimate experience with this class of business causes me to lean strongly to the opinion that the first plan suggested, No. 1, coupled with the extended provision as to the return of instalments already made, affords the greatest assistance to the sales force and to the administrative force and, therefore, is the plan most apt to yield the best results.

17-12. Title Insurance.

Formerly, when property was sold, the records or abstracts of them were examined by an attorney who gave a written opinion based on his findings. While this plan is still pursued in some cases, it is now more general—especially in the case of subdivisions—for the vendor to obtain from a title-insurance company a policy of insurance guaranteeing the title. This policy, or a copy of it, is furnished to the purchasers. This plan has proved so satisfactory that it may be regarded as the standard procedure, but it involves no special feature in the accounts, as the cost is a proper and deductible expense.

17-13. Land-value Insurance Described.

Land-value insurance is a comparatively new form of insurance and it may be well to ascertain:

1. What it is.
2. How it is obtained.
3. What it offers.

What is land-value insurance?

While land-value insurance is applicable to single or isolated lots, or parcels, of land, at the present time it is offered only upon tracts which are intended for subdivision into lots or into farms.

If the owner of such a tract desire to obtain value insurance, he makes application to the insurance company and files with it a complete and minute description of his property, showing its area, location, improvements, etc., etc., with a plat of the subdivision, schedules of all the proposed selling prices and proof as to his title to the property.

These statements are studied by the officers of the company, who apply to them the factors which are described later, and then the risk is accepted or declined, or some modifications are suggested.

If the risk be accepted, the company and the owner enter into a contract under which the former agrees to issue, at any time within a stated period of five to ten years, one of its policies on each lot in the subdivision in question.

The owner then proceeds to sell his property, and each purchaser, upon making his initial payment, receives from the company an "interim certificate" stating that on his acquiring legal title to his lot, as described in the certificate, and on payment of the premium he will receive a policy insuring the value of the lot up to a stated sum.

Under this policy the company guarantees the owner that the lot specified will be worth the sum for which it is insured at the end of a stated period, usually ten years. This guaranty, or insurance, does not become effective until the expiration of the ten years (or other specified term) and always remains effective for one year only.

Therefore, the effect is that one who in 1927 purchased for $5,000, on an instalment plan, a lot which was so insured, received an interim certificate, and upon his completing the purchase, say, on January 1, 1929, he received a policy stating that at any time during the year 1939 the company will, on his request, pay him $5,000 for the lot upon his conveying the property to the company.

This amount is payable by the company to the assured on his request, regardless of any value or appraisal of the property in 1939.

17-14. How Is It Effected?

After the company has made its survey of a neighborhood and is ready to consider risks there, the procedure includes four stages, each of which is represented by a separate document:

1. An owner desiring land-value insurance makes application on a form provided by the company which states the maximum premium to be charged, the term for which the policy is to run, a detailed description of the property and the prices proposed by the owner. This application is accompanied by a cheque for $100 for each $100,000 of insurance desired or any fractional part of $100,000; e.g., an application for $550,000 would be accompanied by a cheque for $600.
2. If the application be declined, the deposit is returned in full to the owner.

17-15. Form of Policy.

If the application be accepted, the company gives the owner a contract which sets forth:

(a) The total amount of insurance.

(b) The premium.

(c) An agreement by the company to issue a policy to the purchaser of any lot in the tract insured for the selling price of the lot as shown on the schedule submitted with the application.

(d) The contract covers all sales made within ten years from its date and provides that policies shall be issued to purchasers when they have fully paid for the lot insured and when they receive a deed to it.

(e) The year in which the loss is payable.

Upon executing the agreement the owner makes a second payment which, together with the deposit already made, equals one-half of one per cent. of the total selling value.

17-16. Premiums on Land-value Insurance.

Further payments of premium are made by the owner as the purchaser pays for the land, each payment bearing the same ratio to the total premium as the corresponding payment made by the purchaser bears to the total price.

The rate of premium varies with the risk, as does the term of insurance, or the period which must elapse before the insurance becomes payable. The usual term for subdivision property is ten years and the average premium is six per cent of the total amount insured. Policies may be written for shorter periods of from five years to nine years each, but the shorter the period, the higher the rate of premium, the rates running from 3.5 per cent. to 8 per cent.

The policy, when issued, follows the land and is automatically transferred to each successive owner without notice to the company.

17-17. Method of Procedure.

The policy is not issued until the purchaser has paid for his lot and does not become payable until the end of the interim period. Therefore, if a purchaser paid cash on January 1, 1926, his policy will become payable in 1936, but if he contracted to buy the property on January 1, 1926, and did not pay in full until January 1, 1931, he did not receive his policy until 1931 and it will not become payable until 1941.

3. When any purchaser of an insured lot signs a contract to buy, he receives from the company an "interim certificate" in which the company agrees to issue to him, or his successors, a policy when the purchaser shall have completed his payments.

4. When a purchaser has completed his payments he receives the final policy which describes the property covered, states the amount for which it is insured and the year in which claim for payment may be made.

This policy sets forth the following conditions and terms:

That the statements made regarding the property by the owner are correct.

That the policy is transferable without notice to the company.

That during the year in which the policy is payable the company will pay to the assured the amount it is insured for within 60 days of receipt of claim and proof of title, and the assured will convey the property to the company.

17-18. Treatment of Claim.

If the property has been improved and a claim is made, the assured and the company will each name an appraiser, who may name a third if necessary, and they will appraise the property, placing separate values on the land and on the improvements. If the appraised value of the land be less than the amount of the insurance, the company may take either one of two courses:

(1) It may pay the assured the difference between the appraised value and the amount of insurance, or,

(2) The company may pay the assured the appraised depreciated value of the buildings and the insured value of the land, in return for which the assured will convey the property to the company.

The company is not responsible for loss in value due to invasion, insurrection, riot, civil war, acts of God, or by condemnation proceedings, unless liability therefor is assumed by endorsement on the policy.

The assured has the privilege of proving loss by selling or conveying the property.

The policy is not a lien on the property and does not vest any right in the company.

The policy may be cancelled by mutual consent of the company and of the assured.

The policy is void if other similar insurance be carried or if any misrepresentation has been made.

No suit for recovery under the policy may be brought after twelve months from the termination of the policy.

To illustrate the treatment of a claim where improvements have been made, let us suppose that a lot is insured for $1,000; that on appraisal the value of the lot is placed at $750 and the depreciated value of the improvements at $5,000.

The company has the choice of paying the assured the amount of insurance, $1,000, and the value of the improvements, $5,000, i.e.,

$6,000 in all, and taking the property, or it may pay the assured the loss on the land, $250, and permit the assured to retain the property.

If an assured desires a larger amount of insurance on his lot, he can make application and, if the company approve the new valuation, additional coverage can be obtained at once.

17-19. What Will Be the Effect of Land-value Insurance?

The real-estate business has always presented some of the most striking contrasts to be found, for, while land is the most stable commodity which we have, prices for it have been subject to more frequent and violent fluctuations than have most commodities produced directly or indirectly from it.

Anything which will stabilize these prices must be of incalculable value. The direct products of the soil—wheat, corn and other crops—are judged by a more or less fixed standard, guaranteed by some form of official certificate. Foods we eat are guaranteed by the manufacturers to conform to legal requirements; the necessities and luxuries we buy, whether they be motor cars or pearl necklaces, are guaranteed by the firm from which we buy them; yet land is, and always has been, bought largely on the representation of a more or less—and often less—trustworthy salesman whose very living depends upon the commissions he receives for making sales.

Land-value insurance should both facilitate and simplify business. It should speed up sales and will reduce or abolish the re-sale habit.

If the Florida "boom" be taken as typical, one excellent result which remains is the added care with which attorneys examine titles. In former days the country attorney frequently assumed many facts; in "boom" times more careful examination brought to light many a hidden defect, and the public was driven to require title insurance. It seems to me that similar results may come from land-value insurance. If this once is generally demanded, no "boom" will be possible. Suitable and legitimate developments will be encouraged and insured; land in premature and unnecessary development tracts will not be sold, because the owners will be unable to obtain the insurance which will be demanded.

The wise developer will welcome this insurance. It not only affords him an unbiased and trained opinion as to his suggested values, but it affords him a "selling argument" which is unsurpassed.

Land-value insurance is now obtainable in a number of widely separated states and it seems probable that its use will increase and may soon become nation-wide. However, the period of operation has been too short, at this time, to make any definite statement as to the financial results obtained by the various existing companies or as to the value of the security held for the assured.

17-20. What Security Does It Offer and on What Is It Based?

All insurance is founded on the law of averages, and this form is no exception to the rule. The averages are determined by compiling facts from as large a number of cases as possible and ascertaining the conditions surrounding those to which the facts relate.

These facts are usually collated by actuaries, who from them prepare tables which show the ratio of risks of a given class.

As was well said at a recent international congress of actuaries in London, "To the ordinary man the profession of the actuary, requiring as it does a highly specialized technique, has always remained something of a mystery. . . . The actuary has been able by his calculations to achieve the apparently impossible, to harness chance—a demon more volatile than Pegasus—and in some measure at least to clip the wings of misfortune."

Life insurance affords the closest parallel to land-value insurance and a glance at the history of the older form is interesting.

In England it was necessary to set by law the value of an estate for a single life, two lives, etc., and four hundred years ago this was arbitrarily set at seven years, fourteen years, etc., respectively. A century and a half later (A.D. 1692) the government undertook to sell annuities and lost some millions sterling in the venture.

This led the astronomer royal, Dr. Halley, to make investigations, but he had difficulty in obtaining the requisite facts. However, he did find records in Breslau, Silesia, where the data for five years included 6,193 births and 5,869 deaths. As no census had been taken, Dr. Halley estimated the population and in or about 1693 published the first crude mortality tables.

This led to further study as to collecting data and drawing proper conclusions therefrom, but little progress was made, although the first life-insurance company, the Equitable Society of London, was established in 1762.

In 1780 the Northampton table was prepared by Dr. Richard Price, but in this case also no census had been taken, and subsequent experience has shown that the table contained grave errors, the average life being shown at twenty-four years, whereas the true average has been proved to be thirty years. The table is based on 4,220 births and 4,689 deaths.

The Northampton table continued to be the best available until 1815 when the famous Carlisle tables were published, on which an enormous amount of life insurance was written with safety and profit. The Carlisle tables are still recognized by the courts throughout this country. This table is based on the lives of only 7,677 people, of whom 1,840 died in eight years.

In each case the observations were confined to the population of one small town, and in the two earlier instances no information was obtainable as to the census or the increase in population during the period under observation. Yet results were obtained which were sufficiently trustworthy to stabilize the business of life insurance, although the government for long refused to acknowledge the value of the results.

Let us compare this with the history of land-value insurance.

A few years ago, probably about 1923, the first companies to guarantee the value of real estate were formed, and one of these, a Nevada corporation, transacted business in California, but it was decided that the business was practically insurance, and the company was ordered to stop operations. This brief experience had proved the value of such insurance and a company was organized as a land-value insurance company. In 1925 the California legislature passed an act controlling land-value insurance companies, and this is now in force. The first company was licensed on May 27, 1925. Since then, the insurance departments of other states, notably Colorado, New Mexico, Nevada, Wyoming, Florida, West Virginia, South Carolina, Alabama and Tennessee, have granted permission for land-value insurance companies to operate.

It is safe to say that similar permits will be granted by all states whose laws provide for "miscellaneous" insurance companies, and it is stated on good authority that every state in the union, except New York and New Jersey, does provide for such companies.

17-21. Actuarial Requirements.

The actuaries interested in this matter naturally desired to obtain figures corresponding to those on which mortality tables are based, and for this purpose they analyzed the history of more than ten thousand subdivisions which have been made in the period 1879 to 1920, throughout the United States. They also obtained and arranged all the available pertinent information, including the causes of the successes and of the failures.

This information, after the most careful analysis, shows that, based on a period of ten years, over 80 per cent of the subdivisions have been successful and less than 20 per cent have been unsuccessful.

This information is varied in character and includes such items as are mentioned in par. 3-14.

There are in all 108 factors which are taken into account, an appropriate "weight" being given to each factor, although these weights vary in different neighborhoods. Well established, old communities present advantages and disadvantages differing from a younger and more rapidly developing neighborhood.

Before a company will consider any risks in a given territory, it makes a study of the conditions, obtains the factors mentioned and applies them to the value of any tract submitted to it in such a way as to determine a value upon which the property will yield a fair return—that is, the true commercial or selling value. In determining the basic price to which the factors are applied, the companies obtain the assistance of the best appraisers or appraisal boards available.

Much stress is laid upon the proportion which the various kinds of business buildings and dwellings in any vicinity bear to each other.

The companies are not appraisal companies and do not furnish valuations. They simply tell an owner whether or not they are willing to insure the owner's prices.

It is suggested that the information available for examination, coupled with the advances which have been made in actuarial science, places land-value insurance on a far broader and sounder foundation than life insurance occupied for several generations after the first company was established.

17-22. The Security Is Strengthened By Various "Spreads".

The security behind the policies is increased by the several "spreads" which apply to this kind of insurance, namely:

(1) Over a varied territory.
(2) Over a variety in the character of risks.
(3) Over the term of years.

(1) Territory. No company intends to confine itself in any way. Its business will extend from its home town throughout the county and the state and will become to a greater or less extent nationwide, thus reducing, or avoiding, danger from any local depressions in business.

(2) Character of risks. As at present organized, the risks may cover various subdivisions, such as high-class residences, medium priced lots and mechanics' homes, thus reducing the chance of loss from difficulties affecting any one class of purchaser.

(3) Term. No policy is given until the land is fully paid for, and, in the case of lots sold on any deferred-payment plan, the policy is not delivered for several years after the date of the contract between the owner and the company, and then runs for ten years. As the owner is allowed ten years to sell the land, the policy in extreme cases may not become effective for twenty years. In all cases the risks are spread over a considerable period.

It is noteworthy that in no other form of insurance is the term so definitely fixed; no other form is definitely free from liability for a specified term and in no other form is there the certainty of some salvage value, for if one of these companies suffers a loss it must acquire property of some value.

Doubtless, as years progress, these insurance companies will organize holding companies to take over properties acquired on claims. This may in itself become a profitable business, for a purchaser may be willing to sell for cash at a low price, while the holding company, after keeping the property for a time, may reasonably expect to sell it at an advanced price when any temporary depression has passed, especially as it will be able to give easy terms for purchase.

17-23. Reserves.

It is said that the companies now organized provide under their laws that fifty per cent of all premiums received be set aside as a sinking fund which is invested and kept inviolable. The companies also say experience shows that losses never have averaged as high as 20 per cent of the total amount insured.

On these bases they build the following conclusions:

Premiums on insurance of $100,000 at 6%	$6,000.
of which 50% goes into the reserve	$3,000.
Invested for, say, 12 years at 6% will amount to	6,036.
The losses will not be as much as 20%, or less than	20,000.
If we assume a salvage value of 70%	14,000.
There must be provided	$6,000.
which is cared for by the above sinking fund of	6,036.

Past experience indicates that the allowance of 20 per cent for losses included in the above estimate is adequate. The arithmetic is easily verified. The only unknown quantity is the amount of the salvage value, which must be estimated and must depend upon the good judgment of the officers and upon local conditions surrounding each case.

In all cases the operations of the companies are subject to the direct examination, or control, of the state insurance departments. The reserve is kept apart from all other funds and may be invested only in such securities as are designated by law as legal for investment by insurance companies.

It seems quite possible that other uses for land-value insurance will be developed; for example, dormant real estate, insured as to its value five years hence, is being used as collateral for debentures and is also being used as security behind common stock. Recently some debentures, supported by collateral of real estate, have been used in place of a surety bond with some state departments for the purpose of licence issues.

17-24. Life-insurance Record.

A life-insurance record is required only where the lives of purchasers on an instalment plan are insured by the company. It may be of the style shown in form 29.

No. of sale..............................
Name.....................................
Term of contract {number of monthly, quarterly, etc, payments} ....
Term of contract (number of years)..
Date of sale............................
Date reported to insurance company ....
Amount of sale......................
Amount of insurance desired ....
Date of policy........................
No. of policy..........................
Amount of policy..................
Remarks:.................................(Cancelled—, why not issued, etc.)
Premiums January
February
March, etc.

Form No. 29—Life-insurance register

Each sale is entered as made and the monthly premium is entered against those which are insured. The record shows all insurance in force, and the premiums shown as falling due each month facilitate the checking of the bills received from the insurance company.

A stock columnar book measuring 13" x 15" contains columns sufficient for 21 months, and by "short-leaving" pages, this can be extended indefinitely.

17-25. Expiration Register and Card System.

The accountant should be careful to keep a record of the date on which each policy expires, and he should also see that every building in which the concern has any interest is properly insured. The insurance records may be kept in an "expiration register", prepared for the purpose, or on a card system. A ruled register with self-explanatory headings, such as is used by many fire-insurance agents, can be bought from stationers.

I prefer a card system for this purpose, with ruling as shown in form 30, which has proved itself capable of meeting all requirements. Under this system a card is numbered for each building to be insured, the numbers corresponding with the numbers of the properties shown on the property index and property ledger. As the insurance is written, the cards are filled in and filed. When all the cards are filled, therefore, we know that every building is insured.

No. .... Property ....

House ....

Assured .... Loss to ....

Company	No.	Dated	Expires	Amount	Premium	
....	....	....	....	....	......	....
....	....	....	....	....	......	....
....	....	....	....	....	......	....
....	....	....	....	....	......	....
....	....	....	....	....	......	....

FORM No. 30—Insurance card record

An even better method is to have a duplicate record, i.e., an original and a carbon copy. One set is then filed in order of dates and one set in alphabetical order of owners' names.

Another set of cards is also made up and filed at the same time for use as a tickler, this second set containing a card for each month of the next one, three or five years, according to the terms for which policies are written. Each card of this second set is headed with the name of the month, and as each card of the first set is written out, its number is entered on that card of the second series which represents the month in which the particular policy expires. The result of this is that if any card of the second series is taken out, we have before us a list of all policies to be renewed in the particular month represented by that card.

At the end of each month in which expirations occur, all the new policies written during that month are checked against the expiration card, to see that all renewals have been properly made. The particulars of the new policies are entered on the proper cards in the first series, and the property numbers of the new policies are also entered on the cards of the second series for the months in which they expire.

17-26. Filing Policies.

The policies themselves should be arranged according to the months in which they expire. This takes little time and provides a check upon the expiration card. As each policy is received, it should be examined to see that it is correct as to date, amount, name of assured, and that it affords proper protection for the mortgagee, if the property is mortgaged. The simple system here outlined contains merely the records required by the assured. It is not intended as a record for the insurance agent, which is necessarily somewhat more complicated.

17-27. Life Insurance with Mortgages Payable.

Certain life-insurance companies have in recent years introduced the practice of lending their surplus funds on mortgages at a low rate of interest and free of brokerage, on condition that the mortgagor take out with the lender a life-insurance policy in such an amount that the annual premiums will amount to, say, 5% of the amount of the loan. The policy may be taken out either on himself or on others designated by him and, in the event of the death of one of the assured during the period of the loan, the insurance is credited on the loan.

Such agreements must be carefully examined to determine the proper disposition of moneys paid for premiums. The interest payments are, of course, treated like all other interest on mortgages payable. The premiums may be charged to a life-insurance account and the cash-surrender value of the policy will appear as an asset, the difference between this amount and the total premiums paid being written off as an expense in the event of the death of one of the assured. The amount of insurance collectible, less the premiums paid, may be debited to mortgages-payable account and credited to a special surplus account.

If none of the assured die and the mortgage is satisfied when due, the amounts paid as premiums may remain as an asset, if the policies are continued for the benefit of the business, or if they have an exchange or surrender value equal in amount to these premiums. If, however, the policies have no such value, the premiums must be written off to profit-and-loss. On this account, proper arrangements should be made when the loan is entered on the books, to avoid the possibility of having to write off a considerable sum at the end of a few years.

CHAPTER XVIII

Taxes

18-1. Federal and State Income Taxes.

Of all taxes, federal and state income taxes demand the most attention, for they depend on and seriously affect the profits, and they are governed by specific regulations, which are subject to frequent changes.

18-2. It is not necessary to enter into a detailed discussion of the requirements of federal and state income taxes. The former are modified so frequently by fresh legislation, by new regulations and by court decisions that statements which are true or opinions which are expressed today may be changed next year. The various state income-tax laws differ to such an extent that a general discussion of them is impossible.

18-3. The federal income tax was imposed under the revenue acts of 1916 and 1917, and rules were promulgated in regulations 33. Certain distinctions are drawn between time sales, based upon whether title passes to the purchaser or is retained by the vendor and also upon the cash collected during the taxable year in which the sale is made, referred to as the "initial payment". Under the rules, regardless of the transfer of title, sales may be treated as instalment sales if the initial payment do not exceed a stated percentage of the sales price; and, if the initial payment do exceed that percentage, the sales are to be regarded as closed transactions and the entire profits are to be reported in the year of sale.

18-4. These rules are found in regulations 45, 62 and 69, 74 and 77, and it is not necessary to deal here with past modifications. It is interesting, however, to consider briefly the regulations 77 under the revenue law of 1932.

Article 352 of these regulations states:

"Sales of real estate fall into two classes when considered with respect to the terms of sale, as follows:

"(1) Sales of property on the instalment plan, that is, sales in which the payments received in cash or property other than evidence of indebtedness of the purchaser during the taxable year in which the sale is made, do not exceed 40 per cent of the selling price.*

"(2) Deferred payment sales not on the instalment plan, that is, sales in which the cash or property other than evidences of indebtedness of the purchaser during the taxable year in which the sale is made exceed 40 per cent of the selling price."

18-5. The regulations have always contained a provision similar to article 353 of regulations 77 which reads as follows:

"The vendor may return as income from such transactions (instalment sales) in any taxable year that proportion of the instalment payments actually received in that year which the total profit realized or to be realized when the property is paid for bears to the total price."

In other words, the government arbitrarily divides each dollar into two parts, one of which is principal and the other is revenue.

In determining the class to which a given sale belongs it is immaterial whether or not title has passed to the purchaser, the amount of the payments received in the first taxable year being the sole criterion; however, the passing of title does affect the procedure upon repossession.

18-6. In the case of deferred-payment sales, the obligations given by the purchaser "are to be considered the equivalent of cash to the amount of their fair market value in ascertaining the profit or loss for the transaction." The only difficulty is to determine the fair market value, and such sales are then treated in the same manner as closed transactions.

Where the vendor takes a first mortgage for a large portion of the purchase price and a second mortgage—or its equivalent—for the remainder, the case will fall in the class of sales on the deferred-

* Changed to 30% in the revenue act of 1934.

payment plan. Usually such first mortgages are held to be worth their face value and, therefore, the equivalent of cash, while the value of the other notes must be determined in each case.

18-7. Defaults.

If the purchaser default in an instalment sale and if the vendor repossess the property, it must be taken back at the basic cost price when the sale was made, and, after allowing for any depreciation, etc., the taxable income arising from a sale in the year of repossession will be the amount of payments received by the vendor, less any profit already declared by him.

This rule applies also to deferred-payment sales if the vendor has not passed title to the purchaser.

18-8. However, in the case of deferred-payment sales, if the purchaser default and the vendor repossess the property, a clear distinction is drawn between sales where title passes to the purchaser and those in which title is retained by the vendor.

In the latter case the contract of sale and the re-possession are regarded as parts of the same transaction and the property is to be taken on the books at the price at which it originally stood, subject to deductions for depreciation, etc.

If title has passed to the purchaser, the treasury department regards the sale and the foreclosure—or the means of repossession—as two separate transactions, and the vendor must return as taxable profit for the year in which repossession occurs the difference between the original basic cost of the property and its fair market value at the time of repossession. That value "shall be presumed to be the amount for which it is bid in by the vendor in the absence of clear and convincing proof to the contrary", and this value shall be the basis for computing loss or gain when the property is again sold. This is a modification of the general definition of the term in article 221, which says:

"The 'fair market value' of a property is that amount which would induce a willing seller to sell and a willing buyer to purchase."

Regulations 77 also provide for the calculation of loss or gain on the disposal by any means of instalment obligations as follows:

18-9.

"Article 355. If an instalment obligation is satisfied at other than its face value or is sold or exchanged, gain or loss results to the extent of the difference between (1) the excess of the face value of the obligation over the amount of income which would be returnable were the obligation satisfied in full and (2) the amount realized upon such disposition."

18-10. The determination of the "fair market value" or "readily realizable market value" will always present some difficulties, for it depends upon several factors, such as:

The value of the property
The financial standing of the purchaser
The penalties which may result from non-payment of instalments.

Obviously, if the initial payment represents a large portion of the purchase price, say 50% or more, and if the subsequent payments are represented by mortgage notes given by a wealthy purchaser, those notes may be worth their face value.

Again, if a purchaser make a substantial payment and give a first mortgage for, say, 30% of the purchase price and then give a deed of trust or a second mortgage for the remainder of the price, the first mortgage may be worth the face of the notes, while the remaining securities may have a far smaller value. With such possible variety of conditions, the fair market value must be determined by a study of each case, and no general rule can be suggested.

18-11. Let us suppose a sale as follows:

Cost of property	$8,000.	
Sale price	10,000.	
Profit	2,000.	or 20% of sale price
Payments required	1,000.	a year for 8 years
Purchaser erects buildings worth	5,000.	
and no depreciation occurs.		
Purchaser defaults after making the first payment and two annual payments.		

The above is an instalment sale, regardless of whether title has passed or not, and the result will be as follows:

(Regulations 77, article 353.)

(a) The owner reports the first, second, third and fourth payments in each year as received		$4,000.
On which he reports profit of 20%, or	$800.	
He regains the property at the original cost of		8,000.
and reports total collections of		4,000.
from which he deducts the profit, already declared, of		800.
Leaving a profit in the year of repossession		$3,200.

18-12. (b) Let us suppose the same conditions, except that the first payment is $4,000 with six annual payments of $1,000 each.

This is not an instalment sale, but a deferred-payment sale, to be treated as a closed transaction, and the procedure on repossession will depend upon whether title has passed or not.

The vendor would report a taxable profit for the year in which the sale was made of $2,000.

If title has not passed, on repossessing the property, the vendor would report as follows:

(Regulations 74, article 354)

(b-1) Total collections	$4,000.
Profit already reported	2,000.
Taxable profit in the year the property was repossessed	$2,000.

18-13. (b-2) If the title had passed and at the foreclosure sale the vendor bought the property for $9,000, he would report as follows:

The fair market value would appear to be	$9,000.
Less original basic cost price	8,000.
Profit	1,000.
But he has already reported a profit of	2,000.
Therefore he may deduct in the year he repossesses the property	$1,000.

The result depends entirely upon the fair market value, and while the "bid in" price at foreclosure is prima-facie evidence, the vendor should be prepared to submit testimony supporting it. If the property be repossessed by agreement without foreclosure, the vendor should procure all evidence possible as to the real market value.

The property must be re-entered on the books as costing the amount of the fair market value used in the income-tax return.

18-14. Other Taxes.

All revenue taxes, whether they be levied by a state, county or a municipality, are direct expenses, and, if accruing prior to or during the period of construction, they are to be regarded as a carrying charge to be added to the cost of the property. If accruing after construction is completed, they become annual expenses to be closed into the profit-and-loss account.

The methods of assessing and collecting vary in the different states; for example, some state taxes are assessed as of January first, but the tax rolls are not made up and approved until October; therefore, tax for any given year can not be paid until about November of the following year. In this case, it is a common practice, in the event of sale, to arrange that the taxes for the year of sale shall be pro-rated between the vendor and the purchaser.

18-15. Taxes for Improvements.

Assessments for any special purpose which enhance the value of the property, such as paving, sidewalks, etc., are capital expenses which should be charged to the cost of the property.

18-16. Subdivision Trusts.

In some parts of the country subdivision trusts are formed for the protection of purchasers and provide a means whereby, whatever may be the condition or fate of the selling concern, each purchaser is assured that, on completing his payments, he will receive a good and sufficient deed to the property which he has purchased. These trusts take various forms, but that phase of the question lies outside the present field. They are mentioned here to warn persons interested to study the current treasury regulations which define these trusts and to consider carefully the exact form under which they are to operate, for the calculation of their taxable income will depend on their classification as "association", "trust" or "corporation". These definitions are clearly set forth in regulations 77, articles 1312, 1313 and 1314.

18-17. State, County, Municipal and District Taxes.

In order to meet the expenses of government and the cost of improvements, there are numerous taxes, all based on some assessed value of the property or, in the case of some improvements, upon the benefits which it is expected that the property will derive from them. The wide variations in state laws and the diversity of purpose for which such taxes are levied make it impossible to deal with them in detail: they may cover school districts, or districts subject to special taxes for bridges, roads, drainage, canals, harbors and other matters. In some cases twenty or thirty taxes are assessed on one property. Whether such taxes should be capitalized or not depends upon their nature and, to some extent, upon the views of the owner; but, in any event, they should be entered on the records in some form.

In order to assure itself that all taxes are paid, the concern should prepare lists of its properties in the various counties, districts or municipalities and should send these to the collector or other proper officer with a request that all assessed values and taxes be shown. This is a far safer plan than that of relying upon a collector to prepare lists of taxes due by the concern. Such a form as that shown below, No. 31, may be used for this purpose.

18-18. Entering Tax Payments on the Books.

The method of paying taxes differs so greatly that no general rule can be given. In all cases, however, some form of tax receipt is obtained. Sometimes such a receipt bears full description of the lands; sometimes, if the list is a long one, the collector attaches the list itself to the receipt form. When the official receipt reaches the owner, it should be carefully checked against the tax list in order to see that no improper changes or omissions have been made, for any such errors can best be corrected immediately. Entries from these original tax receipts are made in the property ledgers, showing the number of each receipt, the amount of the assessment and the amount of the tax. It is found convenient in practice to enter the assessed value, for in some cases (for instance, wild lands) these assessments are raised, and this fact may escape the owner's attention, until he looks at his tax record in the property ledger, when the increase at once becomes apparent.

Tax receipts should be carefully preserved in files of sufficient size to receive them without folding and to enable quick reference to be made to them. The receipts for each county are placed together, and the counties are arranged in alphabetical order. It may be that some of the property owned lies in small towns in various counties, and that these towns also assess city taxes. In such cases, this property should be placed at the end of the list for the county in which it is situated; if it be placed among the regular lists, there is a possibility that it will be overlooked.

It is a good practice to make a note in red ink on each ledger sheet, on which property subject to city taxes is entered, similar to the following: "Pay city taxes", and also to enter the dates upon which these taxes should be paid, as these do not coincide with the dates of payment for county taxes. The method followed for the payment of the ordinary city taxes is exactly similar to that used for the county taxes.

18-19. Taxes on Time Sales.

Probably the simplest way to enter tax payments on the books is to charge to taxes account each cheque as it is given and, when the final tax receipt is received from the collector, to pick out all those properties upon which taxes have been paid which are covered by time sales and are payable by the purchasers. A list of these is made, and a journal entry is put through the books in the following form:

Contracts .... $...............

To Taxes .... $...............

For the following taxes for the year.................................

Contract No.............. Name..................................

Amount...................

The total of this is charged to the contracts account in the general ledger and the various items to the individual accounts in the sub-ledger. After crediting the tax account with the above entries, the net balance is carried each year direct to profit-and-loss. Where taxes have been paid in advance, it may be proper to carry all such accounts as an asset, like prepaid insurance.

18-20. Mortgage Taxes.

It is essential, of course, that a concern which has outstanding a number of mortgages receivable should keep itself acquainted with the facts as to the payment of the taxes by the mortgagor, especially

DESCRIPTION OF LANDS IN ________________ COUNTY

Paid on for 193 . . as per attached tax receipt number ________

ISSUED TO ________________________

PARTS OF SECTION	SEC.	T.	R.	ACRES 100ths	RATE OF TAX	VALUATION	AMOUNT

FORM No. 31—Tax return

as the mortgagor often postpones payments and they fall upon the concern. In order to care for these, separate tax lists should be made for each county and headed "mortgage taxes," and these lists should agree with the details given against each description. As it is the custom in many states to assess the property under the name of the owner, this insertion facilitates reference by the tax collector.

The safe practice is to make lists showing every piece of mortgaged property, and to send them to the tax collector a short time before the books are closed, asking him to note all unpaid taxes thereon and to return this list to the concern. When such taxes are paid they are, of course, charged direct to "mortgage taxes" and should not go through the regular tax accounts. It is to be noted also that occasionally taxes include certain assessments for improvements, such as draining wild lands. Each such case must be considered on its own merits, as it is possible that the amounts paid for these assessments, although paid with taxes, may properly be chargeable to improvements.

18-21. Descriptions.

Before leaving the subject of taxes, one other difficulty should be mentioned, and that is the various descriptions of the property used by assessors and collectors. In the case of an irregular piece of land the full description of which by metes and bounds occupies many lines, or even pages, it is manifestly impossible for the full description to appear on the tax books. The assessor therefore seeks a shorter description and defines the land by giving the book and page on which is recorded a deed conveying the land in question, as for instance, "Part of the Sequi grant, 100 acres in section 37, T.3, S.R. 26 E., as recorded in deed book B.2 p. 204."

When this entry is first put on the books, it is probably correct, but as years go on and it is copied from roll to roll, errors creep in and the book or the page or some number is changed. Or, the property may be reconveyed and a new assessor may describe it properly under the book and page in which the new deed is recorded. Such variations constantly occur and render difficult the reconciliation of the returns made with the receipts obtained. To prevent this, reference to the records themselves or to an abstract of title is frequently necessary, and even then it may be found that the land has been assessed under both descriptions. In such a case, proper steps should be taken to have one of the assessments cancelled.

A reference to form 48 (page 188) will show how these mistakes may be minimized in practice. On the front of the page is given the full description; on the back is the description (or descriptions) used by the assessors. This addition to the usual form has proved to be of great service and its adoption is recommended. In the same way, descriptions by county assessors frequently differ from those of municipal assessors, and these differences in the descriptions should always be clearly stated on the form.

If proper attention be given and correct returns made, such mistakes in future years can be prevented, for almost invariably tax assessors are desirous of bringing their records to as high a degree of accuracy as their opportunities will permit.

CHAPTER XIX

Special Matters in Federal Income Tax

19-1. It is impossible to predict what the rules of federal taxation may be a few years hence and, therefore, it is impossible to lay down a definite course of procedure, but experience has taught us that numerous matters have to be watched carefully and must be treated in accordance with the current regulations. Among these the following are the most important:

19-2. Bad debts. Bad debts are deductible, either as debts ascertained to be bad in whole or in part or as a reserve based on a percentage of sales. Whichever method is selected, it must be maintained from year to year; but under the first method care must be taken to make the deduction in the year when the debt was found to be worthless. The reserve method is seldom suitable for real-estate dealers.

19-3. Capital gains. Subject to certain restrictions, an individual taxpayer may report capital gains separately and pay a total tax of 12½% on them, provided he has held the property for at least two years.

19-4. Carrying charges. Carrying charges such as taxes on unproductive property may be added to the cost of the property, provided they have not been deducted as expenses in previous years.

19-5. Closed transactions. Sometimes officers of the treasury department have shown a disposition to call real-estate sales closed transactions and have assessed taxes thereon, although under the regulations many such cases could be classed as deferred-payment sales, often to the advantage of the taxpayer.

19-6. Commissions. The principal difficulties with regard to commissions are of a mechanical nature and have already been mentioned. However, numerous and conflicting decisions have been rendered by the treasury department, and doubt sometimes exists as to the period in which commissions are to be regarded as income.

With regard to commissions receivable which have been earned by the taxpayer, it seems to be fairly well established that they do not constitute taxable income until they are received by or are available to a taxpayer. For example, the mere fact that a corporation has credited a salesman with commissions does not in itself constitute income to that salesman. If the corporation has at its command cash which is immediately available and can be turned over to the salesman, the amount may constitute income to him. On the other hand, if it be merely a credit to him which the company does not or can not make immediately available to him, it does not constitute taxable income to him until such a condition exists.

In the case of commissions payable, somewhat different conditions exist, and, if a corporation habitually keeps its accounts on the accrual plan, it is allowed to treat such commissions as an allowable deduction in the period in which the entry is made.

It seems to be well established that estimated contingent commissions are not a deductible item and that a reserve set up for any liability which is in fact contingent is not deductible.

19-7. Contract price. When used in the regulations "contract price" means the total sum received, or to be received, by the vendor after deducting all mortgages and other encumbrances to which the property is subject.

19-8. Contract of sales and contract to sell. Sometimes it is difficult to draw a clear distinction between a contract of sale and a contract to sell. In such cases the matter should be referred to an attorney, as, under a contract to sell, no sale is recognized by the regulations.

19-9. Cost. The items composing cost must be such as are allowed by the regulations, and care must be taken to ensure the proper apportionment of the cost of a tract to the several lots therein. See chap. IV.

19-10. Dealers and casual sales. In the case of casual sales, the owner is allowed to deduct a reasonable allowance for future expenditures for which he is responsible.

19-11. Deferred payments. The rules regarding deferred payments have been changed so frequently, and are so apt to be still further changed, that current regulations must be consulted before a sale can be properly classified.

19-12. Depletion. On the acquisition of property subject to depletion; such as oil and gas land, mines and timber tracts, care must be taken to allocate properly the cost price between the land itself and any other items entering into the total cost and to see that the facts are set forth in detail in the records. (See par. 3-9.)

19-13. Depreciation. See chapter XVI.

19-14. Details of individual sales. For years past the regulations, (regulations 77, article 61) have required that the sale of each lot be treated as a separate transaction; and the books should be arranged to meet this requirement. (See par. 6-12.) It has been found convenient for the auditor to maintain a special book for this purpose among his working papers, in which he can enter year by year the receipts on account of each lot and the taxable profit arising therefrom.

19-15. Earned income. Under the current law deductions are allowable on earned-income account to resident individual taxpayers, whose reward is based on personal efforts, rather than on capital invested.

19-16. Fair market value. Perhaps fair market value is the most difficult question of all those arising in real-estate accounts. Matters of opinion are always harder to prove than are matters of fact, and statements supporting values should be in the form of carefully drawn affidavits, each one applying to a specific transaction and each one showing the qualifications of the affiant.

19-17. Gains. For income-tax purposes gains are not necessarily the difference between the cost and the selling price, for sometimes certain complications arise in reference to the value on March 1, 1913, or at the date when a bequest or a gift was received. In such cases the current regulations must be examined.

19-18. Improvements—provisions for. As explained in chapter IV, provisions for improvements should be set out in detail in the books and must be carefully checked so that a revenue agent can readily examine them.

19-19. Instalment sales. The remarks made under deferred-payment sales are equally applicable to instalment sales.

19-20. Initial payment. The phrase "initial payment" in the regulations means all payments made during the taxable year in which the sale is made; whereas in commerce the phrase means what it says—the first payment. Care must be taken to avoid a confusion of meaning.

19-21. Interest. All interest on borrowed money is a deductible expense, whether paid or accrued, but in certain cases, such as carrying charges on unimproved property, it may be capitalized. Interest charged for cost-keeping purposes, such as rent on a building owned and occupied by a concern, is not deductible.

19-22. Leases. Many complications arise with long-term leases, especially where the lessee agrees to pay existing obligations at some future time or undertakes to make improvements or additions to buildings, as such items usually result in taxable income to the lessor.

19-23. Long-term contracts. In certain cases, such as the making of fruit orchards which are sold on the instalment plan, it is sometimes allowable to make income-tax returns with adjustment allowed for long-term contract, where the profits are based on the percentage of completion; or the total profit may be taken in the year in which the work is completed.

19-24. Losses. Fresh decisions are constantly modifying the rules regarding losses, and each doubtful case must be viewed in the light of these decisions. A striking one was published while this chapter was in course of writing: the expenses of a motor car used for pleasure are not deductible, but if the same vehicle be damaged in an accident, the cost of repairs is a deductible loss.

19-25. Options. Options vary so greatly in so many respects that no general rule can be given beyond advising that, before any form be adopted, it be carefully considered in light of current regulations.

19-26. Organization expenses. In no circumstances may organization expenses be amortized. They are deductible only in the year in which they are incurred. In any event they are deductible only when "limited to purely incidental expenses"; otherwise they are to be capitalized. This is an elastic rule, and there is reason to believe that in the case of a large corporation, substantial expenditures may be classed as "incidental."

19-27. Purchase price. As used in the regulations, "purchase price" means the gross amount the purchaser is to pay, either in cash or in mortgages given or assumed or otherwise.

19-28. Realized profits. Realized profits are discussed in chapter XX, and if the suggestions made there be followed, no difficulty should arise.

19-29. Removal of buildings. When any building removal is contemplated, the current regulations should be consulted. The removal of an old building in order to erect a new one is not a deductible expense.

19-30. Repossessions. The rules for repossession vary greatly. When the vendor retains title, the property is to be taken back at its cost less any depreciation, but if title has passed to the purchaser and a mortgage has been taken, a completed transaction has occurred; and on the foreclosures of such a mortgage, a fresh transaction takes place and the price at which the property is to be re-entered on the books is the fair market value, which in the absence of other evidence is the "bid-in" price.

19-31. Syndicates. There has been a tendency on the part of the treasury department to treat all syndicates as associations, thereby rendering them liable for the same taxes as a corporation.

In the present discussion the term "syndicate" is applied to a group of interests, individual persons or corporations, which unite their forces, consisting of wealth, penury, knowledge, sales ability, assurance or what not, for the purpose of handling specified property for the benefit of the group. Such an arrangement, in itself, is entirely proper and it is always a purchaser's business to remember the caution, "caveat emptor."

While syndicates assume various forms to meet varying requirements, they are usually regarded by the participants as partnerships or joint ventures, regardless of the fact that the regulations contain special rules applying to them. Under these rules, and speaking generally, syndicates are usually regarded as falling in one of two classes:

1. Joint ventures
2. Associations

If the syndicate be merely a loosely formed alliance for the purpose of arranging a sale or making collections, it is regarded as a joint venture and the share of each partner in any resulting profit or loss is returned by each individual member. No return is required of the syndicate. On the other hand, syndicates frequently prepare elaborate deeds of trust conferring on someone, in the nature of a trustee, powers as broad as or even broader than those possessed by the board of directors of a corporation. In such cases the treasury department regards a syndicate as an association and requires that a return be filed by the syndicate itself in the same manner as is prescribed for corporations. It is probable that this requirement has frequently been overlooked or disregarded, and that many trustees may find themselves faced with charges of delinquency and resulting penalties. The dividing line between joint ventures and associations is a fine one and is affected so greatly by the details of each case that no general rule can be given in a discussion such as this.

19-32. Taxes. With the exception of federal income, war-profits and excess-profits taxes, all federal, state, county and municipal taxes, when imposed to raise revenue, are deductible expenses.

Federal income taxes are not deductible, nor are taxes or assessments levied to pay for improvements.

19-33. Trustees. Each trustee should be careful to ascertain whether income-tax returns should be made and income tax paid by him or by the *cestui qui trust*. In differing circumstances a trustee may do one or both or neither.

19-34. Values March 1, 1913. Frequently it is difficult to prove values of March 1, 1913, especially as the treasury department turns a deaf ear to expressions of opinion. Facts relating to similar sales or sales of similar property are the only acceptable proof, and the department has allowed, when necessary, a long period before or after the date. All statements should be in the form of affidavit.

CHAPTER XX

Profits

20-1 Definitions.

The profits arising from transactions in real estate may be defined as follows:

Gross profit is the excess of the sales price over the cost.

Net profit on sales is the amount remaining after deducting the cost of selling from the gross profit.

Net profit on operations is the excess of the net profit from sales over the cost of administration and management.

It is with gross profit that we are now concerned. To ascertain it we must include in the cost all those items which have been discussed in chapter IV; and we must deduct from the consideration received any such charges as taxes, which the vendor undertakes to pay, and the expense of any improvements which he may have to make; and we must add to the cash received the amount of any obligations—such as a mortgage on the property—from which he is relieved.

20-2 Mortgage Assumed by Purchaser.

It frequently happens that a transaction involves more than the exchange of cash for real property. There may be a mortgage or some other lien which the purchaser assumes; or, more often, the purchaser may give a mortgage as a part of the price (chapter IV).

In the first instance the journal entry would show that the seller is relieved of any obligation which is assumed by the purchaser. In many cases this entry should include some mention of interest on the mortgage. It may be overdue, or it may be the sum which has accrued since the last interest date, as in the case of property sold on the 1st of August subject to a mortgage payable on which interest had been paid up to the 1st of June.

20-3. Assumed Mortgages.

In case a mortgage were assumed by the purchaser, the journal entry on the books of the seller would take the following form:

Mortgages payable	$...............	
To real estate		$...............
For mortgage No. ....assumed by ....on the purchase of property No.		

In the case of overdue interest assumed by the purchaser, the following journal entry would be made by the seller:

Mortgages payable	$...............	
Overdue mortgage interest payable.................	....	
To real estate		$...............

If accrued interest not yet payable were included, the entry would be:

Mortgages payable	$...............	
Mortgage interest payable...............................	....	
To real estate		$...............

20-4. Exchange of Properties.

Real estate is often transferred in exchange for other real estate, and such transactions are sometimes brought on the books by entering the difference in price between the properties involved. However, it is far more satisfactory to treat an exchange as two separate transactions—that is, to write off the property conveyed as if it were sold for cash and to treat the property received as a fresh purchase. Reference should be made to the method of payment in each case. (See par. 11-9.)

20-5. Method of Determining Profit.

In this chapter the word "profits" is used to indicate the gross profit, the difference between the cost and the selling price, without making deductions for commissions or any expenses.

If records be kept with any reasonable degree of accuracy there is no difficulty in telling at a glance what is the profit on any sale; and, in the case of a cash sale, this amount may properly be credited to some account which is carried to the profit-and-loss account. However, the sales of subdivision property are usually made on some instalment plan running over a number of years, and it then becomes necessary to determine each year what portion of the total profit has been realized.

20-6. In the case of sales in which there is a substantial cash payment and a mortgage (or some equally good security) is given for the balance, the sale may often be treated as a closed transaction, and the profit may be carried to the profit-and-loss account. At the time of writing, the United States treasury department sets 30% as the amount of the first payment which is sufficient to cause a sale to be regarded as a closed transaction, but the circumstances of each individual transaction are the determining factors.

20-7. One of the principal purposes of accounting records is to afford proof that the profit arising from every sale has been properly recorded—a proof required by the owner and by the revenue agent. It was well said by one revenue agent that the method to be followed in subdivisions "is fundamentally different from the sale of personal property on the instalment basis. Where personal property is sold on the instalment basis, the sales for the year are determined, the cost of the merchandise sold is computed, an average percentage is arrived at and applied to the collections year after year until the entire outstanding balance is either collected or the merchandise is repossessed."

20-8. Conventional Method of Ascertaining Realized Profits.

Let us now consider the ordinary time sale which is so general in subdivisions. It is immaterial whether this be represented by a mortgage or by a contract and whether or not the purchaser be subject to any penalty if he fail to carry out the agreement.

For illustration, let us suppose that a lot costing \$600 is sold for \$1,500, of which 20%, or \$300, is paid in cash and the remainder is represented by sixty monthly payments of \$20 each, disregarding any charge for interest.

It may be argued that the vendor realizes no profit until he has collected the \$600 which the lot cost him; that is, until after the fifteenth payment, and that thereafter all collections are profit.

Such an argument is met by the statement that experience has shown that if a purchaser has paid in 20% there is a great probability in favor of his completing the purchase, and, therefore, the vendor should not await the receipt of the cost price in cash before he realizes some profit. This view is that usually held by the management and the stockholders of corporations and has received official approval by the United States treasury department.

20-9. This has led to the acceptance of a convention to the effect that it is not only permissible but quite proper to say that each payment is composed of two factors, one of cost and one of profit, and should be divided in the same ratio that the total profit bears to the sale price. In this example the profit is \$900 and the sale price \$1,500 and $\frac{900}{1500} = 3/5$ or 60%, therefore 60% of each collection may be regarded as realized profit. In such a case it is customary to say that the unrealized profit is \$900 and to regard 60% of each payment as realized profit applicable to the payment of dividends.

This may be stated as follows:

$\frac{\text{Payments made}}{\text{Total sale price}} \times \text{Total gain} = \text{Realized profit}$, or in the example the realized profit would be $\frac{300}{1500} \times 900 = \$180$.

Therefore, in the case of a single sale the realized profit for any period can easily be determined by using the above formula.

20-10. Basic Sales Price.

This would also be true in the case of an entire subdivision if all lots were sold at the standard basic sales price; but, in practice, this never occurs, for as sales progress prices are changed from those basic prices, discounts are given for wholesale sales, and other items cause fluctuation of prices and render untrustworthy the application of any average percentage of collections.

20-11. Wholesale Sales.

In subdivisions it is a common practice to sell lots for investment purposes, that is, with the idea that the purchaser will be able to re-sell them at a profit. In these instances a number of lots may be sold at wholesale prices, which may be only a portion of the basic sale price. Such transactions play havoc with any averages. The practice is well established and a concern generally opens a "re-sale department" to help purchasers dispose of their lots. The system presents dangers, for, unless the concern retain the sole agency for the lots, it invites and encourages rivalry, which is apt to result in the offer, at cut-throat prices, of lots adjoining those owned by the concern.

20-12. The errors arising from calculation of profits on an average percentage are particularly flagrant where the method of determining the cost per lot is any other than that of the basic sales price. Prices in a subdivision are apportioned according to the number of lots, each lot costing, say, $100; two lots are sold, one for $200 and one for $1,000; then the respective profits are $100 and $900, or 50% and 90% of the receipts. If each purchaser pay in $200 the realized profits are, respectively, $100 and $180, and it is evident that no general average can be used. Even if the standard sales price be based on the cost, as is recommended, and apparently a true average percentage could be established, in practice the actual selling prices vary from the basic prices in an irregular manner and the same errors occur, although they will not be so large.

20-13. Accountants now recognize the true condition of affairs and make a practice of establishing some system which will show the profit on each sale.

Further than this, federal regulations require that the results, the profit or the loss, of each sale must be shown separately; therefore both financial accuracy and legal requirements demand that the profit realized on each sale be determined separately.

In my opinion, the only place in which it is proper to take a percentage of the receipts as representing the earnings realized is in the preparation of interim periodic reports (par. 37-9), and even there approximations are all that can be expected.

20-14. Ascertaining Realized Profits.

Owners of subdivisions usually desire to show each year the total profits realized.

If no preparation be made in advance, the labor at the end of a fiscal year may be enormous, for it will be necessary to compile a statement showing the changes in each sale during the current and during the previous years, and that may well be beyond the capacity of the staff. There are three principal forms of records used to facilitate such calculations:

1. A special ledger.
2. Special columns in the lot register.
3. A special realized-profit record.

20-15. A Special Ledger.

A good many years ago I introduced the following form of sales ledger, which has proved satisfactory:

When an account is opened the profit (called reserve on the form) is calculated and entered. In the example, this is 66.66% or 2/3 of each payment, as is shown in the right-hand column on the following page. Whenever desired an adding-machine list is made of all the totals in the "reserve" column and the total is credited to realized profits.

20-16. Alternative Form of Contract Ledger.

While this form is designed especially for cases where there are no charges for interest or taxes, the principle is equally applicable to any form of instalment sale, and the more elaborate form shown at top of page 155 is used for time sales of any property, not necessarily subdivision lots.

NAME Adamson, John | TERMS | LOT OR TRACT 16 Contract $754

STREET 422 Pippin-Street | $15 monthly | BLOCK SECTION "F"

CITY Jacksonville, Fla. | RESERVE | Fairview

DATE 1934					DR	CR.	BALANCE	RESERVE	RESERVE REALIZED
Oct	1	Contract	J	43	1000 00			666 66	
"		Cash	C	56		100 00			66 66
Nov		"	C	76		15 00			10 00

FORM No. 32—Contract ledger, showing realized profits for subdivisions

	Contract No. 1320
Transferred to...............	Original amount $600.
Transferred to...............	First payment $60.
Name Roe, Richard	Minimum payments $10. to be paid monthly
Phoenix, Arizona	Date of contract Jan. 1, 1916.
Property No. 764	Terms of contract: 10% cash $10. per mo.
Lot 24 Blk. 7 C. engineer's map Phoenix, 1915	House No................
Insurance None	File.......................... Expires.................

Date 1916			Fol	Debits	Credits	Dr or Cr	Balance	Reserve 50% Earned	Balance
Jan	1	Prin.	J 7	600.					300.
	1	Cash			60.		540.	30.	270.
Feb	1	"			10.		530.	5.	265.
Mar	1	"			10.		520.	5.	260.
"	31	Interest	J27	10.60			530.60		
Apr	1	Cash			20.60		510.	5.	255.

FORM No. 33—Contract ledger—alternative form

Care must be taken to see that entries are made in the "earned" column only when payments which reduce the principal are made.

20-17. Combined Sales Register and Realized Profits Register.

In the case of a subdivision which it is expected to sell out quickly, a convenient way of ascertaining realized profits is by means of a specially ruled combined lot register and realized profits record.

This may be a columnar book 12″ x 15″, each folio having date and narrative columns and 24 money columns. By cutting off the narrative columns and thus making short leaves, 48 columns may be included.

The basic prices of all lots in the subdivisions are entered promptly in this book. Entries may be made in alternate lines, if desired, to allow for changes, and a sub-total may be taken for each block or similar division.

The money columns are then headed:

(a) List prices / (b) Estimated cost — Land, Improvements, Total

(c) Sold in 1932—amount
1933—amount
1934—amount
etc.

(d) Gross profit—1932, 1933, 1934 — Two columns for each year showing (a) ratio in % of profit to sales and (b) amount of unrealized profit.

(e) Principal collected 1932 $......................................
1933 $......................................
1934 $......................................
etc.

(f) Profit realized 1932 $......................................
1933 $......................................
1934 $......................................
etc.

FORM No. 34—Lot register

The number of columns allotted for succeeding years depends upon the time within which it is expected to sell all lots. With such a book as that described, having 48 columns to a folio, there is sufficient space to enter the groups (c), (d), (e) and (f) for 11 years.

20-18. All items in columns (a) and (b) are entered before sales commence. As sales occur each one is entered opposite the appropriate lot number—a task, which, if desired, can be performed periodically, say monthly. Entries in columns (c) and (d) are taken from the sales journal and those in (e) from the purchasers' accounts in the sales ledger, while the figures in (f) are obtained by applying the percentage shown in (d) to each amount shown in (e). Cancellations may be entered in red ink and deducted when columnar totals are inserted.

20-19. Advantages of Combined Record.

The advantages of a combined record are that it shows all sales, and all profits, in such a form that they may readily be verified;

that the disposition of each lot is shown; and that the book becomes an inventory of all unsold lots.

20-20. A Realized-profit Record.

A realized-profit record shows each sale made and the realized profit. In my opinion it is generally the most convenient form of record.

It may be kept in a ring binder, the full size pages on the left hand being headed as follows:

1 Date	2 No. of sale	3 Name of purchaser	4 Description of property	5 Sales price	6 Costs	7 Unrealized profits	8 Ratio profits to sales price

FORM No. 35—(1) Realized-profits record

On the right hand the pages are short leaved and a fresh page is taken for each year. The date is put as a heading as follows:

April 30, 1931

9 Reduction of principal	10 Realized profits	11 Cancellations	12 Total realized and cancelled	13 Unrealized profits

FORM No. 35—(2) Realized-profits record

Items in column 9 are entered at the end of a year from the customers' accounts in the sales ledger.

Column 10 is the percentage shown in column 7 of the amount in column 5.

Column 11 shows all cancellations, taken from the sales journal. If preferred this may be shown in red ink in column 10, but no more labor is involved in a separate column.

Column 12 is the total of columns 10 and 11, and after the first year it includes the total of column 12 for the previous year, e.g., if a sale were made in 1932, column 12 would show the totals of columns 10 and 11, but in 1934 it would show the total of columns 9 and 10 for 1933, plus the total of column 11 for 1932.

Column 13 is the difference between column 7 and column 12. The columns of each page are added and are self-proving. They are carried to a summary page at the back of the book and the grand total of column 10 gives the realized profit for the year, while the gross total of column 13 should agree with the amount remaining to credit of unrealized profits in the general ledger.

20-21. Realized Profits on Sales Represented by Equal Periodic Payments Including Both Principal and Interest.

The method of dealing with realized profits on sales represented by equal payments has been considered in chapter IX, and in each case the ledger account shows the amount by which the principal has been reduced and on which the realized profit is to be calculated.

20-22. The Place of Unrealized Profits on the Balance-sheet.

The credit side of a balance-sheet usually contains four classes of accounts, namely:

1. Liabilities of all kinds to others than the proprietors.
2. Off-setting, or contra, entries to some asset account.
3. Net worth—that is, capital subscribed and surplus.
4. Reserves amounts or items subject to the realization of items shown in the assets.

There can be no question that the unrealized profits must belong in class 4.

In the case of instalment sales in which the payment consists of a stated number of periodic payments of equal amount and including both principal and interest (See chapter IX), each payment should, in theory, be divided into its two component parts, principal and interest, but this involves much work and leads to complications. In practice it will be found far more convenient to credit all the payments to principal—on which the realized profit is calculated—until the principal has been received and then to credit all subsequent payments to interest.

20-23. Various methods of meeting this condition have been suggested, such as appraising the contracts whenever a balance-sheet is prepared, deducting the difference between the face value and the appraised value of the contracts from the total of contracts and from the unearned profits and carrying the remaining unearned profits to the profit-and-loss account.

The objection to this is that the latter statement is commonly supposed to show profits which are available for dividends, whereas the profits from instalment sales do not yield cash until collections are made. Moreover, an appraisal is merely an expression of opinion as to what will happen.

Probably few subdivision concerns would care to keep duplicate accounts in their books, using one set for income-tax purposes and the other for dividend-paying purposes. If this be true, the matter is of academic interest rather than of practical importance.

20-24. Instalment Sales Resulting in a Loss.

It is to be noted that, in cases of instalment sales which result in a loss, the loss may be spread through the life of the contract in precisely the same manner as are profits from similar sales, and they may be deducted annually from the realized profits shown on the records.

CHAPTER XXI

Records

21-1. The transactions of a concern carrying on a large land business, including acreage, city properties, subdivisions, rentals and various agencies, are so varied and touch so many interests that many records are required and, while the more important of these are shown in the following list, few concerns will use them all, and in some instances additional records may be necessary in order to meet particular requirements.

21-2. Requirements.

When preparing a set of records, the following matters must be kept in mind:

1. A complete record of all capital invested and of all capital changes must be maintained.
2. Details of all income must be clearly shown.
3. All expenses and expenditures must be properly entered and classified.
4. Particulars of each sale must be set forth so that the profit may be readily ascertained.
5. A record must be maintained of all commissions, earned or payable, and of relative receipts or payments.
6. Means to ensure the collection of all periodic payments, whether of income or principal, as they become due must be provided.
7. Records should show each piece of property owned, acquired or sold.
8. Detailed accounts must be kept with both debtors and creditors.
9. An account must be maintained for each agency or trusteeship in which the concern is interested.
10. All securities of all kinds must be indexed and filed so that instant reference may be made to them.

Where the capital stock is held by various interests, the records should always be in such condition as to supply quickly any information desired by a stockholder. In all cases, they should be so planned as to give immediately the varied information required from day to day by the management, by the treasurer and financial departments and by the sales force.

21-3. Methods Available.

There are three methods of keeping records: in bound books, in loose-leaf ledgers and on cards. In some instances the bound book is preferable, although in most of the records the loose-leaf form is more convenient. Cards should be used only for indexing and for some short-lived accounts. They occupy more space than loose leaves and are so subject to loss and displacement that they do not provide the degree of safety which is essential.

When the number of individual accounts is large, the various forms of "visible" records are convenient. They afford the safety of the loose-leaf ledger and their form facilitates quick reference. In addition, they lend themselves readily to the use of special "markers" to indicate various divisions of the accounts and frequently render the use of additional ticklers unnecessary.

21-4. The records fall into three classes:

A. Corporate records.
B. Financial records.
C. Physical records.

A. Corporate records consist of:

1. Minute book
2. Stock certificate books
3. Capital-stock ledger
4. Subscription ledger.

It is not necessary to dwell upon these, beyond calling attention to the necessity of maintaining the two first mentioned. The land business is fertile in producing transactions of such varied character that the terms should be approved by directors and entered on the minutes. Failure to do this leads to difficulty in determining profits and often causes trouble with income taxes. The imposition of stamp taxes by the federal and by some of the state governments makes it essential that the stock-certificate book be properly maintained and that all required revenue stamps be affixed to the stubs. The capital-stock ledger and the subscription ledger are not required unless the number of stockholders be sufficient to demand it.

21-5. Main Financial Records.

General books:
- General cashbook
- General journal
- General ledger

Journals, etc.:
- Sales journal
- Voucher record

Cash records:
- Receipt books
- Petty-cash book
- Superintendent's cash

Sub-ledgers:
- Mortgage-payable ledger
- Mortgage-receivable ledger
- General contract ledger
- Option ledger
- Subdivision customers' ledger
- Instalment ledger
- Commission-payable ledger
- Brokerage ledger (commissions earned)
- Property ledger (wild lands)
- Property ledger (city property)

Various records:
- Basic price list
- Bills payable
- Bills receivable
- Mortgage interest payable
- Mortgage interest receivable
- Records of deeds received
- Report of sales
- Record of deeds issued

Record of contracts issued
Record of options granted
Fire-insurance record
Collection tickler
Register of sales, collections and realized profits.

Property records:

Report of real-estate transactions
Property index
Field record—wild lands (acreage)
" " —city property
Subdivision tickler
Lot register, for accounting department
" " for sales department
Depreciation record, improvements and equipment
Subdivision histories

Physical records:

Plats and plat books
Wall maps
Card index for sales and reservations
Current price lists
Equipment record
Lot register

Miscellaneous optional records:

Cheque register
Bank account reconciliation book
Analysis books for expenses, costs etc.
Index of customers

Rental records:

Record of leases given
Rent register and house-address book
Rent-receipt book
Rent cashbook
Rent journal
Rent ledger

21-6. Machine Bookkeeping.

If the concern be a large one, it is almost certain that the question whether the books should be kept by hand or on a bookkeeping machine will arise. Until a few years ago, the great majority of good accountants would unhesitatingly have replied "By hand, by all means", and any accountant who has been called upon to audit the accounts of a large subdivision whose records have been kept on the old bookkeeping machines would approve this.

The objections were based on the fact that the entries made in the books gave no details, and search was necessary to find the particular "slip" from which the entry was made, which was supposed to contain a full explanation. This led to the loss of much time and the search was not infrequently fruitless.

Today manufacturers have so improved their machines that no such objections exist, for explanations may be written in the books as completely as if in handwriting. Still, it is impossible to give a general answer to the question. The requirements of each case should be analyzed and submitted to an experienced accountant for his advice.

21-7. The General Ledger.

The style of general ledger may be left to the bookkeeper, although in most instances a loose-leaf book is preferable to a bound volume.

Whichever style of book is chosen, the ledger shown below,

1934		Items	Monthly totals	1934		Items	Monthly totals
Jan. 12	Teams	25.00		Jan. 14	Sales	23.00	
14	Labor	30.00		18	Old lumber	10.00	33.00
25	Hauling	42.00					
31	Labor	28.00	125.00				

Form No. 36—General ledger

which differs somewhat from that generally used, is strongly recommended. This form of ledger greatly aids in the preparation of monthly trial balances and also facilitates the analysis of any account at any time.

In real-estate accounts particularly, it is often desirable to find out how the monthly sales of some one subdivision have been running during a given period, and a glance at such a ledger shows this without further calculation. In a concern doing a large business, there may be a very short interval between the closing of the books and the preparation of the annual report, while at the same time there is an unusual amount of work in the calculation of realized profits. Every hour saved in such work is of great value, and the advantages of this form of ledger are then manifest.

21-8. Arrangement of Accounts in the Ledger.

Whatever form of book be selected, the accounts should not be arranged in alphabetical order but be grouped according to their character.

My usual practice is to arrange the accounts in the following order:

Sales and income
Expenses
Assets
Liabilities
General-ledger accounts

The accounts in each group should be arranged in the same order as that in which they will appear in the balance-sheet or in the profit-and-loss account.

Sometimes where the number of ledger accounts is large it is convenient to make totals of the columns in each group and to carry all these totals to a summary sheet.

21-9. In the case of instalment sales, the profits do not appear on the ledger each month, but, if a classified trial balance be prepared as is suggested, it is easy to calculate fairly closely the result of the month's business in this department. This result may be included in the monthly statement prepared for the management.

The arrangement of the accounts in the ledger is important. The operating accounts, or each group of them, if they be classified, should be arranged in alphabetical order, and the other accounts, referred to as general-ledger accounts, should also be placed in alphabetical order, but separate from the operating accounts. Each account should be numbered, but the numbers, while arranged in order, should not be consecutive. Blank numbers should be left so that additional accounts may be inserted and numbered in their proper order.

21-10. General Journal.

Inasmuch as the journal is a book of original entry and contains entries vitally affecting nearly all sales and purchases, the book should be permanently bound and not of the loose-leaf form. The number of columns must depend somewhat upon the requirements of the particular case, but as a rule at least four columns should be provided, and it may be a convenience to have six or more columns. In the accounts for subdivision properties, the columnar form of journal presents advantages so great as to render it practically indispensable for the proper entry of contracts and the entries relating to their cancellation.

Where a sales journal is not kept, it is a common practice in offices handling such properties to reserve in the journal on the first of each month a page or other appropriate space for each subdivision, inserting merely the heading, e.g.:

Kingslake contracts	$................	
To Kingslake purchase		$................
" Kingslake gain		....

From time to time during the month, as contracts are made, they are entered in columnar form, as follows:

	Contracts Dr.	Purchase Cr.	Gain Cr.
J. Doe, #182	$250.00	$200.00	$ 59.00
R. Roe, 183	500.00	400.00	100.00

At the end of the month these columns are added and the totals are inserted under the headings.

The form of entry of cancellations may be:

Real estate	$...............	
Gain	....	
To Contracts		$...............
" Cancellation profits		....

(See chap. XI.)

In this case, four columns would be required.

It is obvious that this form of entry requires less labor and gives a record better adapted to quick reference than if each contract were made the subject of a distinct journal entry.

21-11. General Cashbook.

The cashbook should contain a record of all cash transactions and of no others. The form varies according to the business. In a small office a columnar book is generally useful so that the receipts and disbursements may be analyzed as they are entered. The book should be a bound volume, unless it be desired to keep the book in duplicate and send one copy to a distant office. In that case the book may well be written with a carbon copy and be bound in a loose-leaf form.

Receipts should also be entered in full and no deductions should be allowed for commissions, expenses or other items—all of which should be covered by separate vouchers. Usually, it is convenient to analyze the receipts in some detail in the cashbook, and such a ruling as the following may be used:

Deposited in bank (using a separate column for each bank)
Contracts
Mortgages
Interest
Rents
Subdivision (If many different subdivisions are being handled at the same time, it is best to have a column for the receipts of each subdivision)
Miscellaneous

The total receipts for each day should be deposited in bank.

21-12. Expenditures.

If a voucher system be used, there will not be need for many columns on the right-hand side of the cashbook. The principal headings will be:

Bank withdrawals (cheques)
Voucher account
Miscellaneous (two columns are convenient, one for the name, or number, of the account and one for the amount)

If no voucher system be used, more columns may be used in the cashbook for the purpose of showing such distribution as is desired.

In large offices operating many subdivisions, it is often well to have two cashbooks, one for receipts and one for disbursements, and I have found it desirable, in unusual circumstances, to have thirty or forty columns in each of these books.

It is assumed that all money paid into or drawn out of the bank will be shown on the cashbook; but some bookkeepers prefer to enter all cheques in a cheque register and there is no objection to this. Any of the stock forms may be used.

21-13. Sales Journal.

As already stated (par. 21-10), sales may be entered through the general journal and, when necessary, a page of the journal may be reserved each month for the sales of any one class. However, in the case of subdivisions and cemeteries, where the sales are all of one class, a special sales journal should be kept, as described in par. 7-7.

21-14. Voucher Record.

The voucher record is considered here as it is, in fact, a special form of journal designed for the purpose of distributing the expenditures of a concern. It is a columnar book containing sufficient columns to care for the classification desired and, usually, is in form as follows:

Date
Name of payee
Character of payment
Number of voucher

Total amount of voucher
Distribution columns, one for each account desired
Miscellaneous columns sufficient to show the name of the account and the amount of the voucher

21-15. Receipt Books.

The form of receipts and the rules applying to them are given in pars. 25-9 and 12-1 et seq.

PORTLAND, OREGON

Nº 10700

....192....

Received of..

The sum of...

....Dollars

ON ACCOUNT OF

Mortgage No.................................. Account principal ....$............................

Interest to....................................$............................

Contract No. .... $............................

Option No................................ $............................

Option No................................ $............................

Option No................................ $............................

....

....

....

By..

$............................

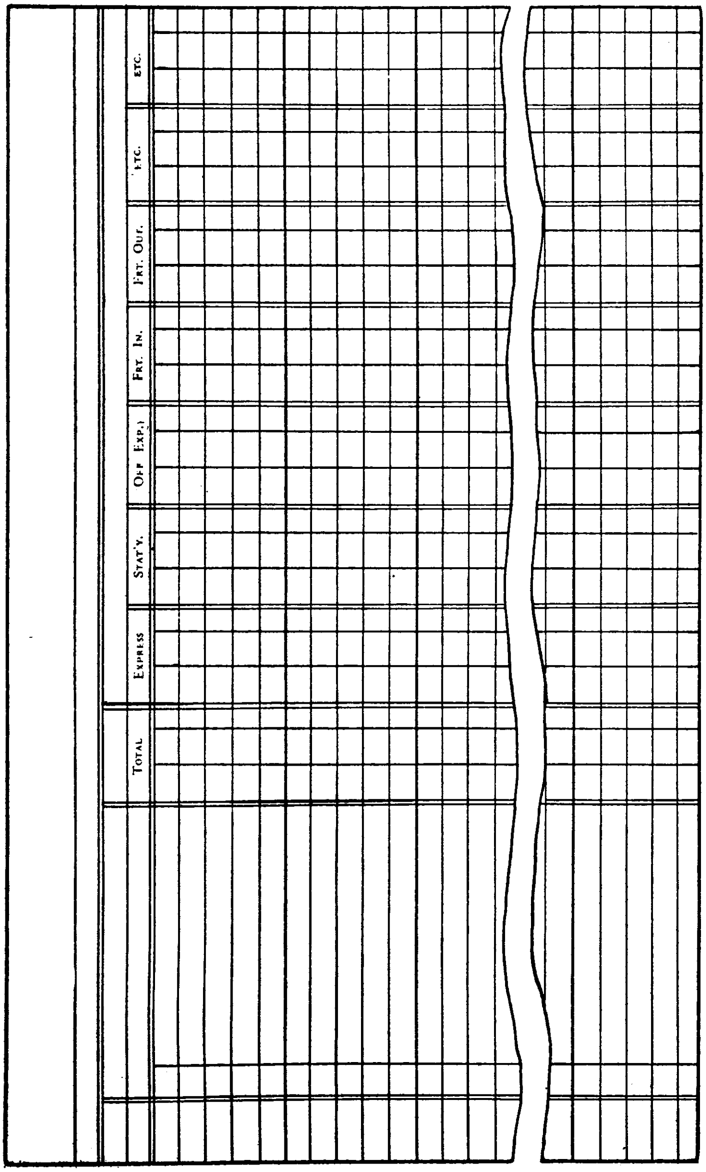
THIS RECEIPT MADE IN DUPLICATE

FORM No. 37—Cash receipt for general office

21-16. Petty-cash Book.

All payments entered in the general cashbook must be made by cheque, and, as in every office there are sundry disbursements too small to justify separate cheques, some proper means of making these disbursements must be provided.

The proper method of handling such payments is through a petty-cash account maintained on the imprest system.



Form No. 38—Petty-cash book

The method of keeping this account is simple. To open the account, a cheque for a round sum, sufficient to care for such expenditures for a month or other convenient period, is given to the cashier and is charged on the general ledger to "petty cash" or "imprest fund." This ledger account remains unchanged unless the amount of the fund in the hands of the cashier be increased or diminished. This is so because, as explained later, subsequent cheques drawn to replenish petty cash are not debited to petty-cash account but are charged direct to the various accounts for which the petty-cash funds have been expended.

From this petty-cash fund the cashier makes such payments as are necessary, recording each one in a book similar to that shown in form 38. Before the entire amount is expended, he adds each of the columns and finds the total of his expenditures. A cheque is then drawn for this exact amount, and the cashier again has the original sum with which he started and can repeat the whole process. The cheque itself is entered in the cashbook and divided among the various accounts to which it is chargeable, as shown by the columns of the petty-cash book.

It will be noticed that form 38 differs from the customary form of cashbook in that it records disbursements only. This is because after the initial cheque is drawn for petty cash, each succeeding cheque is for the exact amount of the expenditures up to a given point, and whenever petty cash is thus replenished by a cheque from the general cash account, the petty-cash book is ruled off and a notation is made, substantially as follows:

Total disbursements .... $...................
Covered by
Check No. .... Date..

The distribution headings shown in form 38 are not printed, as their position can not be determined in advance, but they are written in whenever the columns are totaled.

21-17. It is an excellent practice to provide the cashier with petty-cash vouchers, as shown in form 39, printed on inexpensive paper and bound in pads like the debit and credit slips in a bank. The used vouchers can be filed in bundles, each one of which should represent the disbursements covered by one of the cheques from the general account.

AJAX LAND COMPANY

Petty-cash
Voucher

Jordan, N. C.,.................................193.....

Received of the cashier..

.... dollars

for ....

....

....

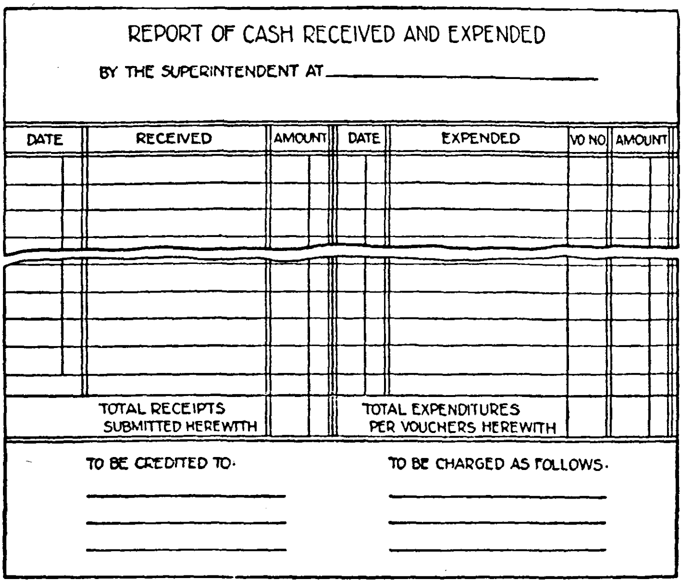
FORM No. 39—Petty-cash voucher

21-18. Superintendent's Cashbook.

It is frequently desirable that a superintendent or manager, whose headquarters are distant from the head office, be furnished with funds to meet current expenses. If the amounts he expends are large, he should make his payments by means of cheques on a special bank account. If they are small, he may make them in currency, as suggested for the management of petty cash.

A superintendent's account should be kept, as far as circumstances permit, on precisely the same lines as the cashier's petty cash, and a similar record is therefore appropriate. Inasmuch as the superintendent must render to the chief office a report of his transactions, it is convenient to have his book printed with the alternate leaves perforated so that they may be detached. By means of carbon paper, the sheets remaining in the book can be made to show a copy of each report sent to the head office. Experience has shown that unless some such method is followed, the cash account of the superintendent may easily become confused and thereby entail the waste of much time.

Whatever system be followed for recording the disbursements of a superintendent or manager, it will be found wise to establish the rule that any collections he makes must invariably be remitted intact to the main office and never be allowed to become a part of or to



REPORT OF CASH RECEIVED AND EXPENDED

BY THE SUPERINTENDENT AT ____________

DATE	RECEIVED	AMOUNT	DATE	EXPENDED	VO NO	AMOUNT
	TOTAL RECEIPTS SUBMITTED HEREWITH			TOTAL EXPENDITURES PER VOUCHERS HEREWITH		

TO BE CREDITED TO: ____________

TO BE CHARGED AS FOLLOWS: ____________

Form No. 40—Superintendent's cashbook

be included in his petty cash. If they were included, the necessity for journal entries would arise, whereas all cash transactions should be recorded on cashbooks.

When a superintendent receives and disburses cash, a uniform style of report (form 40) should be adopted. This should be arranged as already explained to provide, by means of carbon copies, an original for transmission to the principal office and a duplicate to be retained by the superintendent.

21-19. Mortgage-receivable Ledger.

The mortgage-receivable ledger is a sub-ledger intended to show all the particulars of every mortgage held by the concern. (See form 41.) It is of minor consequence whether it be a bound book or a loose-leaf ledger, as the mortgages may be entered in the order of their serial numbers. The form of ruling adopted in either case should provide for the exhibition of the following facts:

Serial number of mortgage; name of mortgagor; description of property and serial property number; amount of mortgage; date made; date due; value of security; rate of interest; dates when interest falls due; amount of insurance to be carried; details of notes—number, due dates, etc.; particulars of the recording of the mortgage; profit.

Rulings should also be provided for a "principal" account and for "interest and charges."

The mortgages-receivable book shown in form 41 meets the requirements and with the property ledger gives all necessary information regarding mortgages receivable.

As soon as a mortgage receivable—that is, a mortgage given to or acquired by the concern—is executed and delivered, it should be entered in this book under the first vacant serial number. For instance, if the first of such mortgages be made by Alfred Jones, it would be known in the accounts as "Mortgages receivable No. 1—Jones."

Inasmuch as precedence among several liens upon the same piece of property may depend largely, if not entirely, upon the dates of their respective recording, no time should be lost in sending each mortgage received to the proper recording officer; and when this is done a pencil memorandum of the fact should be made on the mortgages-receivable ledger. When the mortgage is returned, the full particulars of its recording should be entered in this ledger and the mortgage itself should be filed in its proper place.

In the mortgages-receivable ledger, each principal account is debited with the original amount of the loan and credited with each payment on account of principal as it is made. The total balances of these columns of the sub-ledger must therefore agree with the balance of the mortgages-receivable account in the general ledger.

It is frequently convenient in determining action regarding mortgages (for instance, when a mortgage is in arrears) to know the amount of profit in the original transaction. A place for this information is therefore provided in the mortgages-receivable ledger under the heading "reserve." This avoids reference to the journal or other book in which the amount is recorded in the ordinary routine.

Amount, $
Date made *Mortgage Receivable No.*
Date due
Value of security *Made by*
Rate of interest
Payable
Insurance *Property No.*
Details of notes

Recorded *County* *Book* *Page*

		PRINCIPAL ACCOUNT				INTEREST AND CHARGES				RESERVE	
DATE		DEBITS	CREDITS	Dr. or Cr.	BALANCE	DEBITS	CREDITS	Dr. or Cr.	BALANCE	EARNED	BALANCE

FORM No. 41—Mortgage-receivable ledger

The interest and charges account of each mortgage is debited in the mortgages-receivable ledger with interest as it falls due and also with all expenditures for taxes, insurance, paving assessments, etc., paid by the concern which are to be repaid by the mortgagor. The account is credited with money received from the mortgagor, or from other sources, in payment of these charges.

The total balance of the interest and charges account of the mortgages-receivable ledger must equal the sum of the balances in the general ledger under the accounts overdue mortgage interest receivable, mortgage taxes, mortgage insurance, mortgage assessments, etc.

If it be intended that the lending of money on mortgage shall form a distinct branch of the business, suitable forms of application and forms for reports of valuers and inspectors should be provided. Properly speaking, these are not accounting forms and therefore are not discussed further in this volume.

21-20. The mortgage-payable ledger is somewhat similar to the sub-ledger just described, but it contains the particulars of all mortgages (entered in numerical order) which are payable by the concern.

A special form of ruling is required in order to show clearly the following facts:

Serial number of mortgage; name of the mortgagee or his assignee; description of the property, with serial property number; amount of mortgage; date of mortgage; date due; value of security; rate of interest; dates when interest falls due; insurance called for by the mortgage; particulars of the recording of the mortgage.

Provision must also be made for keeping separately the principal account and the interest account, as in form 41.

Where mortgages are made by the concern, all this information can be obtained direct from the original papers before they are delivered to the mortgagee. It often happens, however, that mortgages payable are assumed by the concern as a part of the purchase price for property acquired, and in such cases abstracts of title must be

AMOUNT $ MORTGAGE PAYABLE NO.

DATE MADE DATE DUE HELD BY

VALUE OF SECURITY

INSURANCE PROPERTY NO.

INTEREST % DESCRIPTION

PAYABLE

RECORDED COUNTY, BOOK PAGE

	DATE		FOL	DEBITS	CREDITS	DR or CR	BALANCE

Form No. 42—Mortgages-payable ledger

relied upon for information, which is to be compared with statements of mortgagors.

It is important that this information be shown whether the mortgage has been assumed by the concern or the property is acquired simply subject to a mortgage. In the latter case, the liability may be disposed of by surrendering the property, which is not necessarily the case if the mortgage has been assumed.

In the mortgages-payable ledger the principal accounts are credited with the amounts of the respective mortgages and are debited with payments made on account of the principal. The total of the balances must agree with the balance of the mortgages-payable account in the general ledger.

21-21. Subdivision Customers' Ledgers.

Other sub-ledgers (forms 43, 44) contain accounts with individual purchasers of lots included in subdivisions handled by the concern. If the concern bought a house, and then sold it on contract, the account with the purchaser would be entered in the general contracts ledger (form 43 or 44); but if the concern bought 1,000 acres of land and divided it into 500 tracts, the accounts with the various customers for each of these tracts would be kept in one of these subdivision customers' ledgers, one such ledger being devoted to each subdivision.

Inasmuch as these accounts are of a somewhat temporary nature, often lasting not more than two or three years, it is not necessary to use so substantial a book as has been indicated for the preceding ledgers. Form 32, discussed in par. 20-15, shows an improved method of keeping these accounts.

21-22. The Boston Ledger.

In some cases it is possible to use a tabular form of ledger not unlike the "Boston" ledger so largely used in banks. This form is well adapted to a comparatively small subdivision in which all the lots are quickly disposed of by contract. Each lot is entered in order of date on one line, or the names of the purchasers are entered in alphabetical order. An index is provided in the former case to show

NAME	TERMS	LOT OR TRACT
STREET		BLOCK SECTION
CITY	RESERVE	

DATE			DR	CR	BALANCE	RESERVE	RESERVE REALIZED

FORM No. 43—Subdivision customers' ledger the name of each customer and the number of his contract. Form 44 shows a suitable ruling.

By the use of "short leaves," a record of this kind extending over three or four years can be kept in a book of convenient size. The chief advantage of this form lies in the fact that it dispenses with

	NO.	NAME	LOT	BLOCK	PRICE	REC'D. JAN	BALANCE	REC'D. FEB.	BALANCE	RE M
	1	Smith, J.	6	52	$300 00	$50 00	$250 00	$50 00	$200 00	$

Form No. 44—Tabular ledger for subdivision accounts

the necessity of drawing off a trial balance of the sub-ledger, as a total of the "balance" column gives this at once. If any error has been made it can be quickly detected, for the total of the receipt column for any month must agree with the total of the corresponding column in the cashbook plus any journal entries which may have been made.

21-23. Transferred Contracts.

Whatever the form of record used for subdivision accounts, a fixed rule should always govern where contracts are transferred—a proceeding of frequent occurrence. In some offices it is the practice to write the name of the transferee on the existing ledger sheet, and then to tranfer this sheet to its location in alphabetical order; e.g., if a lot is bought by John Doe and an account opened with him, and this lot is sold to Richard Roe, the latter's name is written over Doe's, and the sheet is transferred and placed under the R's. This method leads to confusion, for the sale is referred to sometimes under one name and sometimes under the other; or the tickler and other records may fail to show the transfer. The best method is to close John Doe's account by the entry (preferably in red ink) "Balance transferred from John Doe to Richard Roe." In this way it is always easy to trace the history of any lot, even if the tickler is deficient.

The accountant should allow no month to pass without taking off a trial balance from every sub-ledger, even if it is only an adding-machine list; and in all cases these lists should be filed with the month's papers for future reference.

Instalment-sales Ledgers are described in chapter IX.

Option Ledgers are described in par. 7-10.

Commissions, statements and ledger are discussed in chapter XV, where appropriate forms appear. An additional form, No. 45, is shown on pages 182-183.

21-24. Brokerage Ledger (For commissions earned).

The brokerage ledger is used for the purpose of recording all the transactions which yield a brokerage or a commission. The record is a simple one and may be of the style shown in form 46.

The profits arising from commissions on the sale of real estate are simple. In the great majority of cases they are paid in cash or its equivalent as soon as a sale is completed and are entered directly in the cashbook or journal, as the case may be. In time sales, especially where the payments are small, it is a common custom for the owner to make some particular arrangement with the agent, such as agreeing to pay him, say, 50% of all collections until the commission is fully paid.

Sale No.........

Price $...........	Sold to................................
Initial payment $...........	Address................................
Periodic payments	Transferred to..........................
Amount of payments $...............	....
Property No................	....
Description........................	....
....	
....	
Insurance $...............	

Date	Sales Jrnl.	Interest	Principal		Over-riding Commissions		Salesman's Commission	
		Amount paid to	Payments	Balance	Earned	Unearned	Earned	Unearned

FORM No. 45—Combined sales ledger and commission ledger

SHEET NO. ______ ACCOUNT NO. ______

NAME Palmer-Hays Loan

ADDRESS ______

DATE		ITEMS	FOL	✓	DEBITS		DATE		ITEMS	FOL	✓	CREDITS	
1916							1916						
May	10	Abstract	C90		$ 40	00	June	2	Cash-Hays	102		$ 2000	00
	15	Atty Fee	C92		20	00							
		Appraisers Fee	C92		5	00							
June	2	Recording	C102		2	50							
		Commissions	J50		40	00							
		Palmer	C102		1892	50							
					$ 2000	00						$ 2000	00

Form No. 46—Brokerage (commissions earned) ledger

CHAPTER XXII

Property Records

22-1. Property Ledger, Acreage.

The acreage property ledger is the most technical and distinctive of the entire series of real-estate records, and it is one of the most important. It contains all the details of every piece of acreage property in which the concern is interested. In other businesses there is no record with which the property ledger may compare, unless it be a perpetual inventory; but real estate is a less liquid asset than merchandise, and the items of a property ledger have a value far more permanent than the items of a mercantile inventory. Particulars regarding merchandise can usually be gathered from filed invoices, whereas the corresponding information regarding real estate is more varied and technical and is more difficult to obtain, as it must be drawn from a variety of records. The property ledger will be found equally useful in other kinds of business when large tracts of land are held.

Owing to the many purposes which a property ledger serves, it is difficult to devise a single form which will always yield the best results. Several forms are given in the following pages. These, beside meeting the requirements of the special cases for which they are designed, will suggest forms suitable under other conditions. The problem is to provide a record which is convenient for reference and will exhibit clearly all the essential facts.

Forms 47 and 48 illustrate respectively the bound volume and the loose-leaf book. Experience has demonstrated the great superiority of the loose-leaf form. It is more convenient in size and provides for indefinite expansion by the insertion of additional leaves wherever they may be required. On account of this elasticity it has nearly displaced the bound book.

Column	Purpose of column			Width, inches
1	For description (by metes and bounds or by forties[1])			6 7/8
2	Section			7/16
3	Township			7/16
4	Range			7/16
5	Whence derived	Deed No.		1/2
6		Date of deed		3/4
7		Grantor		1 1/2
8		Recorded	Book	1/2
9			Page	1/2
10	Abstract No.			11/16
11				
12	Previous transfers	Instrument		3/4
13		From		1 1/2
14		To		1 1/2
15		Recorded	Book	1/2
			Page	1/2
16	Value	Valuers		1
17		Date		3/4
18		Amount		1
19	Cost			1
20	Encumbrances	Nature		1
21		Mortgage No.		1/2
22		Amount		1
23	State and county taxes	Year		1/2
24		Valuation		1
25		Amount of taxes		1
26		Date paid		3/4
27		Receipt No.		5/8
28	Charges	Date		3/4
29		Purpose		1 5/8
30		Amount		1
31	Disposition	Date		3/4
32		To		1 1/2
33		Sales record		3/4
34	Remarks			6

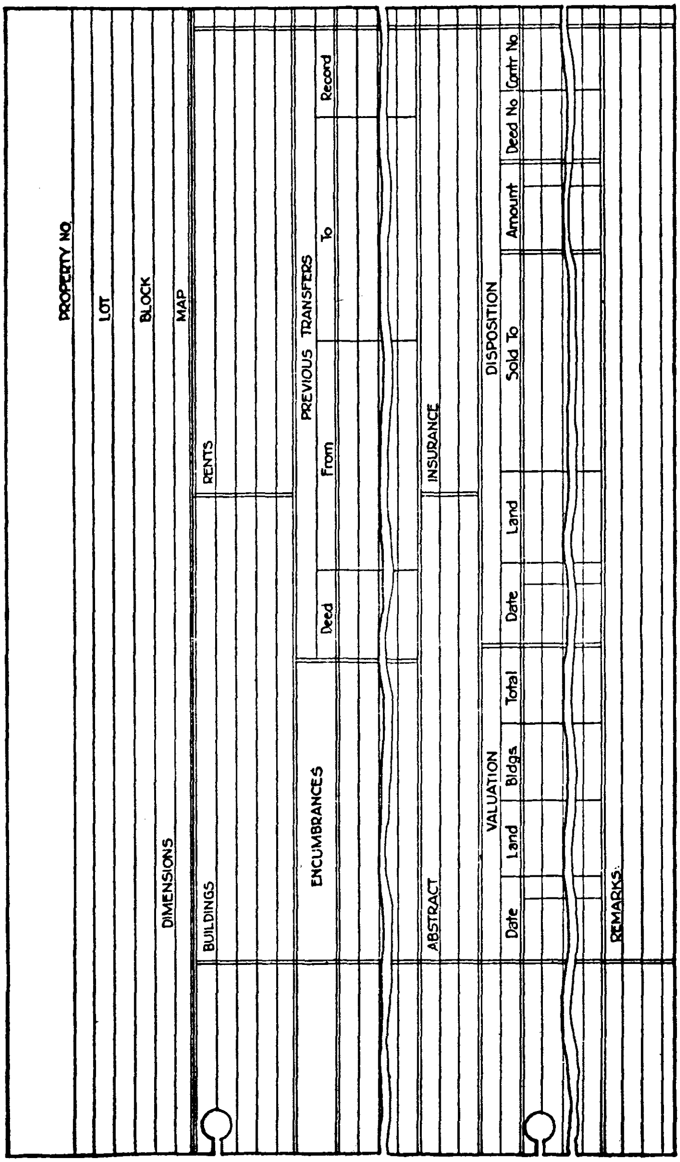
FORM No. 47—Property record or tract book (table showing the nature and width of columns)

Form 47, the bound volume, can be used to best advantage in cases where no new land is to be acquired, i.e., where the concern can at once make up complete and final lists. The following remarks apply equally to forms 47 and 48.

22-2. Method of Writing Up Property Ledger.

The first step in writing up a property ledger is to select the unit, but, as no uniform method of surveying has been adopted throughout the entire United States, it is impossible to give forms applicable everywhere. The examples which follow are based on a township, which is perhaps the most general division. In making entries, data should always be taken direct from original deeds and not from transcripts or memoranda. Every time a description is copied the probability of error is multiplied, and for this reason the record should always be made directly from deed to ledger.

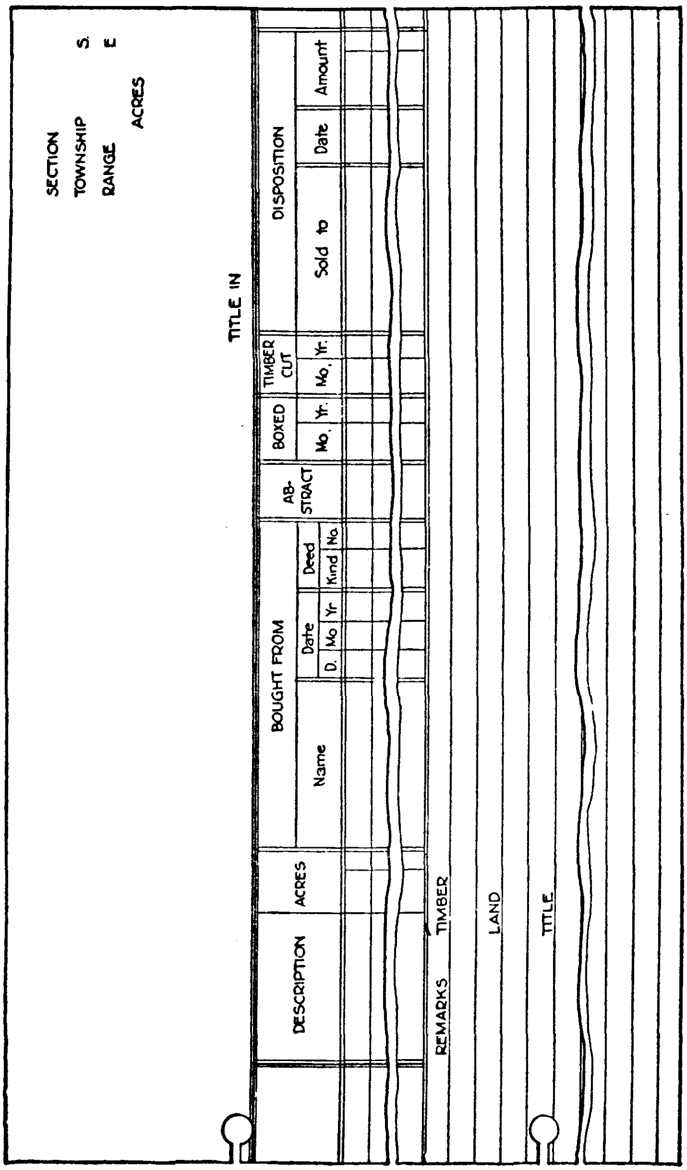
22-3. For convenience in making up tax lists and tax returns, it is best first to arrange the lands by counties, as it is usually the county which assesses and collects the taxes. Having done this, let it be assumed that the unit within the county is the United States township. This unit is six miles square and ordinarily is divided into 36 sections, numbered from 1 to 36, although it frequently happens that, owing to old grants or other similar causes, townships are irregular. In such instances the irregular sections are usually indicated by numbers from 37 upward. As a rule, all the lands owned in any one section should be entered on the same sheet of the property ledger, although occasionally a finer subdivision may be made with advantage, as for instance, where different lands in the section are acquired from different sources.



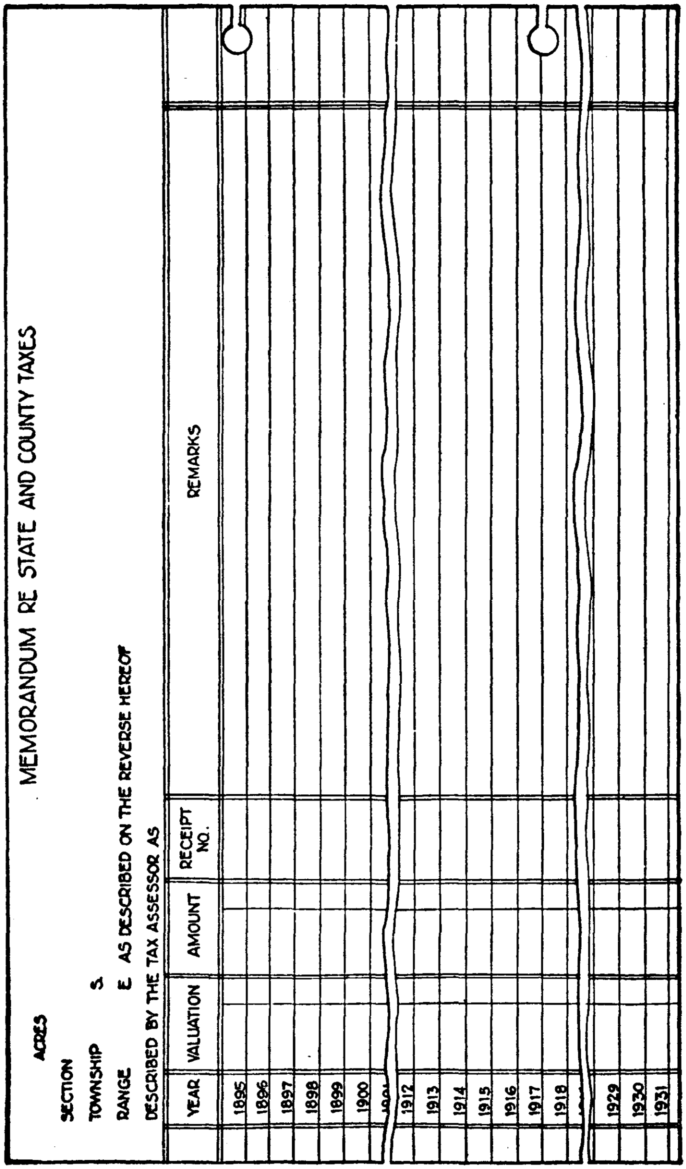
Form No. 48—(a) Property ledger (face)

	STATE AND COUNTY TAXES				CITY TAXES				EXPENSES			
Year	Assessed Value	Amount of Tax	Date Paid	Receipt No	Assessed Value	Amount of Tax	Date Paid	Receipt No.	Date	For	Amount	

FORM No. 48—(b) Property ledger (back)



Form No. 49—(a) Timber land record (face)



MEMORANDUM RE STATE AND COUNTY TAXES

ACRES
SECTION
TOWNSHIP S.
RANGE E. AS DESCRIBED ON THE REVERSE HEREOF
DESCRIBED BY THE TAX ASSESSOR AS

YEAR	VALUATION	AMOUNT	RECEIPT NO.	REMARKS
1895				
1896				
1897				
1898				
1899				
1900				
1901				
1912				
1913				
1914				
1915				
1916				
1917				
1918				
1929				
1930				
1931				

FORM No. 49—(b) Timber land record (back)

22-4. The sheets of the property ledger should then be arranged in regular order, either of township or of range or whatever the subdivision of a township may be called. Practice varies in different states. By the order of township is meant the following arrangement:

Section	1	Township	1	Range	1
"	2	"	1	"	1
"	1	"	1	"	2
"	2	"	1	"	2
"	1	"	2	"	1
"	2	"	2	"	2

The regular section consists of 640 acres, divided into quarter sections and described as N.E. ¼, etc., each of which is again subdivided into 40-acre tracts, described as N.E. ¼ of N.E. ¼, etc. When a whole section, or any portion consisting of more than 40 acres, is written on the property-ledger sheet, the tract should be broken up into these forties and the exact acreage be shown. It is suggested that in the timber land record, shown in form 49, 16 lines be provided, one for each "forty" in a section, so that, if this plan is followed, the disposition of any forty may be shown without disturbing or rewriting the descriptions for the rest of the section. Quite often descriptions of small tracts in irregular sections are so complex that it is advisable to enter each one on a separate sheet as in form 58. (See par. 22-22.)

22-5. It is sometimes necessary to form a bound-book record from a mass of deeds covering contiguous lands. In such cases it is convenient to use the listing slip shown in form 50 for the description of the property. These slips measure 5½ x 11 inches. When printed these forms can be put up in pads. They are written up, one for each deeded piece of land, arranged in order, and copied into the book, and the entries are checked by the original deeds.

22-6. The property record outlined in form 47 is one used in an office which controls large tracts of land of varied character and widely distributed. It is a bound book and the data were compiled

DESCRIPTION				PROPERTY NO	STREET	WHENCE ACQUIRED			RECORDED		ENCUMBRANCES		COST
Subdivision	Lot	Bl.	Map			Deed	From	Date	Book	Page	Mrtge. No.	Amount	

Form No. 50—Listing slip

by the use of the land list shown in form 50. As no other lands were acquired, the bound book form has not been found inconvenient, though the entries relating to taxes have overflowed the space allotted to them.

The sheets used in this record are 21 inches wide and 17½ inches deep, making a book 42 inches wide when open, the record running entirely across the folios. The books from which these dimensions are taken form a series in which lands in some thirty different counties are recorded.

Each page is headed with the name of the county in which the land lies. The horizontal ruling is in faint blue with five lines to the inch, every ninth line being ruled in heavy purple. No more than one section of land is entered in the space between the purple lines.

Columns 5 to 9 are frequently of great use in showing the source from which the particular land was acquired—a record often helpful to have at hand. Columns 11 to 14 are required in cases where it is convenient to show through whom title has passed. This information is especially useful in some states where land is held under tax titles of more or less uncertain value. If these columns are omitted, a double set of "taxes" columns may be inserted.

22-7. The property ledger shown in form 48 was devised for a land company owning wild lands and city property; it is practicable for both classes. The size of the sheet shown is 9¼ x 11¼ inches, although many prefer 11 x 12 inches. The blank heading is of sufficient size to allow an ordinary description to be given at length. The back of the sheet provides for a record of taxes paid and expenses incurred.

22-8. The timber land record shown in form 49 was arranged for a southern estate consisting of pine lands, the title to which rested in sundry persons. It provides for the following special points:

1. Plats of the lands described—this information being permitted by the large headings.
2. Particulars as to turpentine and logging, etc.

3. The record of the tax assessor's description in the tax statement on the reverse side of the sheet.

As a considerable part of these lands lay in large grants and the descriptions were by metes and bounds, the tax assessor's description was merely the book and page on which was recorded the deed conveying the piece to be taxed. Until this information was entered on the property record, there was constant difficulty in assigning to a particular property any item of taxes paid.

22-9. This form was used with the land list shown in form 50 and, as the lands were being continually used for grazing, logging and turpentine, it proved very satisfactory.

Whatever form of property record is adopted, great care must be taken to ensure the entry of all particulars of a general nature, such as quality of soil, timber, minerals, etc.; also all options, leases or privileges of any kind which may have been granted, as well as the receipt of any consideration therefor, either on the principal account or on the memorandum income account.

22-10. As will be noted, apart from its other uses the property ledger forms a perpetual inventory of what is practically the merchandise of a real-estate concern. One of the pleasant features of real-estate accounting is the comparative ease with which an absolutely correct record of everything on hand can be maintained.

All the property records shown here provide for the entry of details regarding taxes as well as of land descriptions. Thus the value of such a record increases with its age. The forms must be modified to meet local conditions. It is important to have such a complete record, but it is often overlooked.

22-11. Property Ledger, City Properties.

It is beyond question that the most convenient form for the record of city properties is a loose-leaf book. As already stated, the property ledger shown in form 48 (see par. 22-1) is suitable for this purpose. The city property ledger shown in form 51 is also suitable. The latter form provides for the entry of all essential information and is almost self-explanatory. Particulars as to appraisals and selling price may be entered in the "remarks" division, while expense and receipts may be put on the back as memoranda.

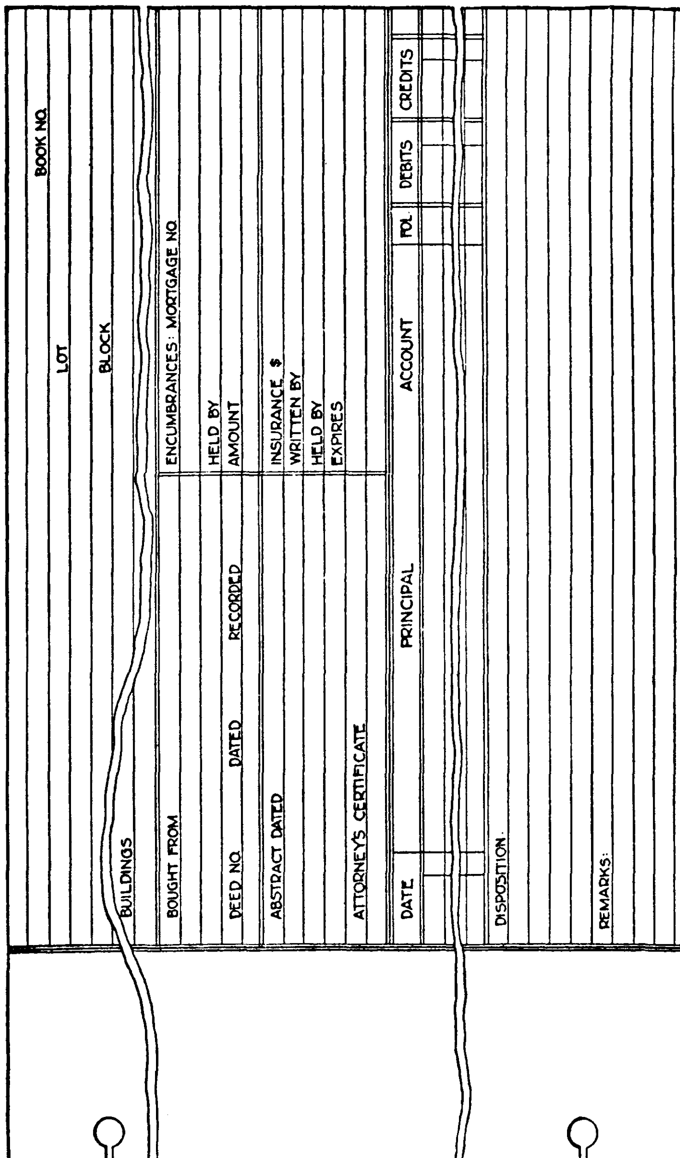
22-12. Method of Writing Up City Property Ledger.

The most convenient method of arranging the city property ledger is to keep together all sheets relating to the same subdivision, arrange them in alphabetical or geographical order as may be desired, and to separate them by blank sheets of heavy paper, to each of which is attached a movable index tag giving the name of the plat referred to on the sheets following. This method gives immediate access to the records of any piece of property of which the description is known. If the name of the vendor is known, reference to the property index (form 62, page 212) will give the subdivision; while, if only the street address be known, the property can be traced by means of the rent record given in form 79 (page 271).

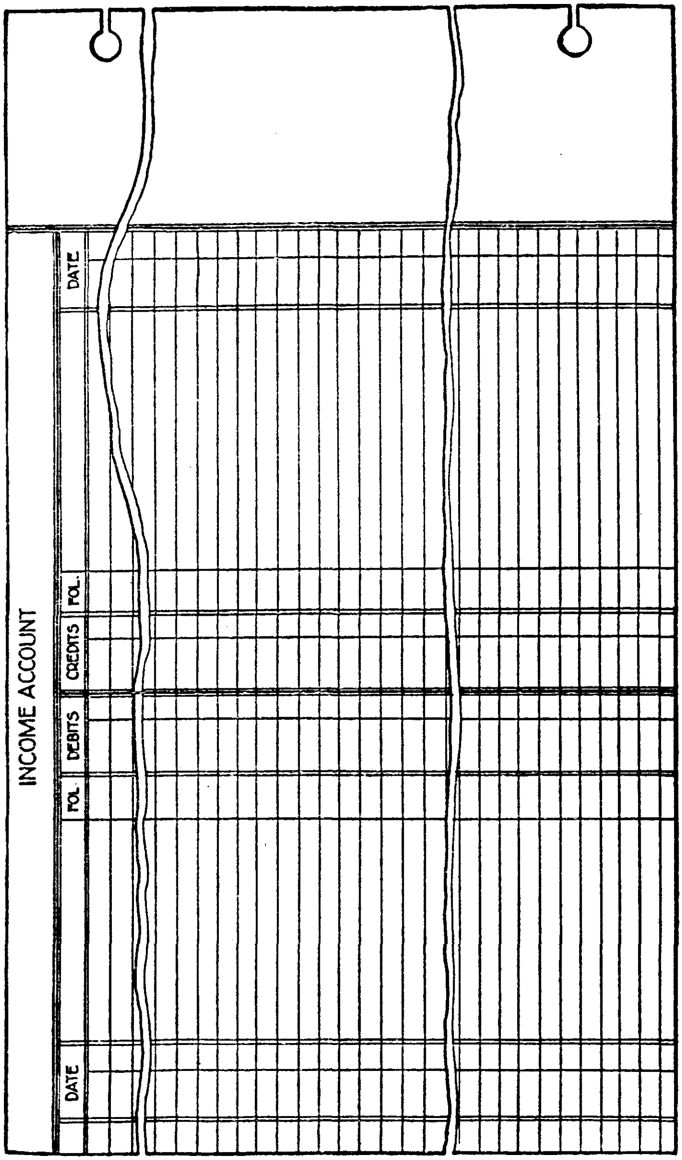
Such an arrangement assists the auditor materially, as it prevents duplicate entry of any piece of property and provides for entry in one place of all mortgages on any property—matters which could not be easily determined under any other plan.

To illustrate, let us suppose that a piece of property is described in several ways, such as "part of lot," or "north ½ of lot," or by metes and bounds. Quitclaim deeds to the property may be obtained, in each of which a different form of description is used. If the property ledger were arranged in the order of the dates of deeds, or in alphabetical order by the names of grantees, separate mortgages might be entered under the several descriptions, and one or more might escape even a careful checking.

22-13. When writing up the property ledger sheet for any improved property, care should be taken to enter separately the value of the land and the value of the improvements, even if this division of the cost must be approximated. This information is necessary for insurance purposes, in tax matters and to determine whether or not depreciation should be charged—something considered more at length under "depreciation" (Par. 1-5 and chapter XVI).



FORM No. 51—(a) City property ledger (face)



FORM No. 51—(b) City property ledger (back)

EXPENDITURE AND MAINTENANCE					
DATE	JRNL. FOL.	FORECLOSURE EXPENSE	REPAIRS AND IMPROVEMENTS	INSURANCE	TAXES

Dr.	Cr.

Dr.	RENT ACCOUNT	Cr.

Form No. 52—Property ledger—English form

Land bought and entered as wild land, or as a city block, may subsequently be subdivided and replatted into small parcels. If the subdivision contain a large number of lots, it is not necessary to enter each separately on the property ledger, as these items can better be recorded on the tract books and ticklers discussed in paragraph 22-1 and chapter XVII.

If comparatively few lots result from subdivision or replatting, it may be advisable to carry each lot in the property ledger on its own account. In that case, the original account in the property ledger is closed by a journal entry and new accounts are opened, one for each lot of the subdivision. Care must be taken to divide properly the cost among the new lots.

22-14. The property ledger shown in form 52, given as an alternative method of recording property, is entirely different from the property ledgers already shown. It was designed for English practice—a fact which accounts for the small space reserved for rents, which in that country are generally paid quarterly.

22-15. Depreciation Record.

Good accounting requires and the treasury department demands that a detailed account be kept of depreciation charged on all buildings. This may be done on a form providing columns to contain the twelve classes of entries shown in par. 16-7.

The depreciation record may be in a stock bound column book containing 12 columns.

The total of column 9 gives the amount to be charged to depreciation and credited to reserve for depreciation for this group of properties.

Depreciation on equipment may be shown in a similar manner when required.

22-16. Subdivision Histories.

Various tracts are frequently joined together to form one tract or one subdivision. They may have been acquired at various times from various owners, and it is essential that a clear record should be maintained of all transactions. The tract may be developed in

MONTH OF________

NO.	NAME	LED. FOL.	AMOUNT OF COUPON	ARREARS BROUGHT FORWARD	DATE		LED. FOL.	RECEIVED		AMOUNTS WRITTEN OFF	ARREARS CARRIED FORWARD	REMARKS
					Due	Paid		Amounts Current	Amounts Outstanding			

FORM No. 53—Depreciation record

units or various changes may be made in it and, without such a record, it is difficult—or impossible—to establish the proper cost price for any portion.

Where many subdivisions are handled in one office a separate history should be prepared for each one in a form such as the following:

Originally carried as property No. 275
2811 Nocatee Farms
Transfer to Nocatee purchase 1916 Owned by the concern
Commenced in 1914 report. Bought from Union Bank. Tracts 5 acres each.
(No. 275) 3,800 acres bought from Union Bank for $11,670.
Payable
October 1, 1914, $2,000
Quarterly payments $1,000 each, with interest at 8% per annum.

(No. 2811) 160 acres bought from J. Summer for $958.75.
Up to April 30, 1917, all profits based on cost of $3.00 per acre.
There are 3,890
160 4,050 acres

Cost bank	$11,670.00	
" Summer	958.75	
Interest to bank	953.10	
" estimated on unpaid balance	200.00	$13,781.85 or, say $4.00 per acre

April 30, 1917	245 tracts unsold at $20.00	$4,900.00
	Purchase account	$4,438.85

Form No. 54—Subdivision history

22-17. *Reports of Real-estate Transactions.*

As it is highly important to keep accurate and complete accounts of purchases, or of land acquired, and of sales a form similar to form 55 may be used to record all particulars of land acquired, the necessary changes to be made for purchases.

THE ALPHA LAND COMPANY
BUFFALO, NEW YORK

REPORT OF PROPOSED SALE

No..........:.........

..........................191....

I have this day arranged to sell to..
.... of ....
the following described property owned by..

Lot ....
Block ....
Subdivision ....

on which is situated ....
The total purchase price is... $...............
Payable as follows: Cash................................ $...............
Contract, payable $.............monthly............. $...............
First payment due...
Mortgage, payable .... $...............
He is also to assume mortgage, viz:
.... $...............

Making the total price of $...............
Interest is to be payable...................at the rate of...................per cent.
Commission of $...................payable to..
IMPROVEMENTS:
The company agrees to erect for the purchaser a.................................
which is estimated to cost $......................., which is to be added to the above figures and is to be covered by the above payments.

....Salesman

Papers drawn:

Entered, Property No.	Mtge. payable No.
Contract No.	Book tickler
Mtge. receiv. No.	Plat

Approved..

FORM No. 55—Report of sale

22-18. Basic Price List.

A basic price list is a record showing the basic price described in par. 6-9, from which is determined the profit on each sale in a sub-division. Too much care can not be taken in the preparation of this record; and it should be on such good paper and in such a substantial cover that it will withstand much handling, for reference is made to it when entering each sale.

22-19. Notes-payable Record. Notes-receivable Record.

The notes records are to contain particulars of each note given or received. Any of the stock forms issued for this purpose may be used.

22-20. Mortgage-interest Record.

The necessity for a record from which each mortgage may be charged with interest as it becomes payable is obvious. The only form required for this purpose is a book made of analysis paper and having at least twelve money columns, one for each month, as indicated in form 56.

22-21. It is sometimes necessary to make monthly reports regarding mortgage interest. For such cases, form 56-a, taken from English practice, is convenient and is particularly adapted to branch offices which have to report to the home office or to other branch offices at a distance. The forms required for interest payable are identical with those for interest receivable.

NAME	No.
ADDRESS	Amount of each note $
	Lot
	Block

Month	March	September	Day 14
	1926	1926	
	1927	1927	
	1928	1928	
	1929	1929	
	1930	1930	
	1931	1931	
	1932	1932	

Form No. 56—Collection tickler (for semi-annual collections)

MORTGAGE NO.	NAME	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	ANNUAL TOTAL
101	Smith J.	2 $20.00			2 $20.00			2 $20.00		$80.00
102	Robinson, D.		21 $100.00						21 $100.00	200.00
103	Bryant, E.			10 $10.00						20.00

Form No. 57—Mortgage interest payable register (small figures indicate day of month on which payments become due)

22-22. *Record of Deeds Received.*

The object of the record of deeds received is, of course, to facilitate reference to any desired deed. There are two forms in which this record may be kept, one of which is a numerical index in which there are columns for the following details: number of deed; name of grantor; kind of deed, that is, warranty deed, quitclaim deed, etc.; date of deed; place of recording deed; county; space for various entries.

Form 58 may be used as an alternative. Although this form requires more writing than that described above, it saves constant reference to the actual deeds, which should be kept in the vault. The form chosen must depend on the preference of the person keeping the record and on the requirements of his office. In a general way it may be said that the form first mentioned is better adapted to the needs of a general land company which buys and sells lands, while form 58 better serves the needs of those who hold lands, not primarily for sale, but for investment, grazing, logging or other similar purposes.

22-23. *Record of Deeds Issued.*

Special attention should be given to the record of deeds issued (form 59), the object of which is to keep a permanent record of every deed executed by the concern. This matter is often overlooked in real-estate offices, but a little thought will show its importance. No wholesale merchant will deliver goods without keeping some record of the transaction; yet many real-estate offices, even though doing a large business, fail to keep any distinct record of deeds and similar papers executed and delivered.

22-24. *Deeds Issued Record—Bound Book.*

If all deeds given by a concern are to be of one form, it is best to have them printed, numbered consecutively and bound in book form on stubs. Each stub should provide appropriate spaces for the following information:

Date of deed; name of grantee; consideration (both the actual and the nominal, if they differ); terms of sale and method of payment; description of property, with serial number; number of con-

Warranty deed From Charlotte H. Holland and husband	To Annie Eliza Skinner Deed No. 5
Consideration: $1,000.00 Dated February 8, 1917	Recorded: Book "122" page 99
Conveys: Part of the Richard or Mill grant Beginning at a cedar stump on the left and S. bank of the "Big Pottsburg Creek" from which stump a cypress tree 30 in. in diameter and marked with an "X" bears S. 25 deg. E. distant 19 links, etc. (balance of description omitted).	Re-recorded: "3" " 236 Sec. 52, T. 2 S.R. 27 E. 31.77 acres
Warranty deed from Daniel E. Thomas	To Anne E. Skinner Deed No. 6
Consideration: $100.00 Dated November 6, 1917	Recorded: Book "6," page 322
Conveys: The most easterly 8 acres of that certain 15-acre tract conveyed by Uriah Bowden and wife to Cornelia Taylor, September 27, 1899. Recorded in book "A L," pp. 733-4-5-6, being part of the F. Richard grant having been conveyed to the grantor by O. B. Taylor, April 11, 1915.	T. 2, S. R. 27 E. 8 acres

FORM No. 58—Record of deeds received

tract or mortgage in conjunction with which deed is issued; names of parties executing the deed; name of person to whom deed is delivered; any other papers delivered, such as releases, quitclaim deeds, etc.

The blanks are filled in with ink. Care should be taken to compare the stub with the deed, when both are completed, and to have the stub initialed by the person responsible for the verification. In the case of subdivision properties of large size, it is convenient to have a separate deed book for each subdivision, with the name or description of such subdivision printed on it.

22-25. *Deed Record—Carbon Copies.*

Another system of keeping office records of deeds issued is to have the deed-form occupy a single page and to make a carbon copy of each deed as it is issued. These copies are then arranged numerically and filed in a binder. This system gives good results. The only serious objection is that when a copy of a certain deed is demanded, there is a strong temptation to remove it from the binder, with the probability that it may not be returned to its proper place.

22-26. If various forms of deeds are used, the record may be kept in a book prepared for the purpose. In addition to the particulars already mentioned, this book should show the kind of deed given, i.e., warranty, special warranty, quitclaim, etc. The record shown in form 59 has been used for this purpose for many years by a company whose head office is far distant from the local office in which the business is transacted. The head office keeps a complete duplicate set of records, copied originally from the local books and kept up to date from the record of deeds issued.

22-27. *Invariable Rule Regarding Deeds Issued.*

Whatever method may be adopted, no deed should ever be allowed to leave the office until a permanent written record of it is made. At the time this may appear of little consequence, but in real estate there is always a possibility that at some future time it may be necessary to refer to the original transaction, and permanent records are therefore even more necessary in this business than they are in a mercantile or manufacturing enterprise.

22-28. *Record of Contracts Issued.*

The general remarks as to the importance of office records of deeds issued apply also to the record of contracts; but the method of keeping this record is somewhat simpler, because the important particulars of each contract are shown by the entries in the contracts sub-ledger.

....Deed No..................
Date .... From ....
To ....
Consideration $...................... Actual..
....
Terms ....
Payable ....
Property: Tract book No.....................................Serial No................
.... County ....
....
....
....
....
....
Contract No............................Mortgage No...
Other papers delivered..
....
Executed by ....
Delivered to ....
Total acres...Value on lists $..................
Cashbook .... Gain $..................
Journal .... Loss $..................
Verified by ....

FORM No. 59—Record of deeds issued

It is a general practice, from which there should be no deviation, to execute every contract in duplicate, the vendor and the purchaser each receiving a copy. If this is done and the copies are filed, numerically or alphabetically, in the order followed in the contracts ledger, and if the contract is entered on the property ledger, no further record will be required.

22-29. *Record of Options Granted.*

The record of options granted is similar in all respects to that for contracts. Three distinct records are required:

1. A copy of the paper executed.
2. Particulars in the sub-ledger.
3. Particulars in the property ledger.

22-30. Fire-insurance record may be kept on one of the stock forms, on such cards as form 30 (par. 17-25) or on a loose-leaf form such as No. 60.

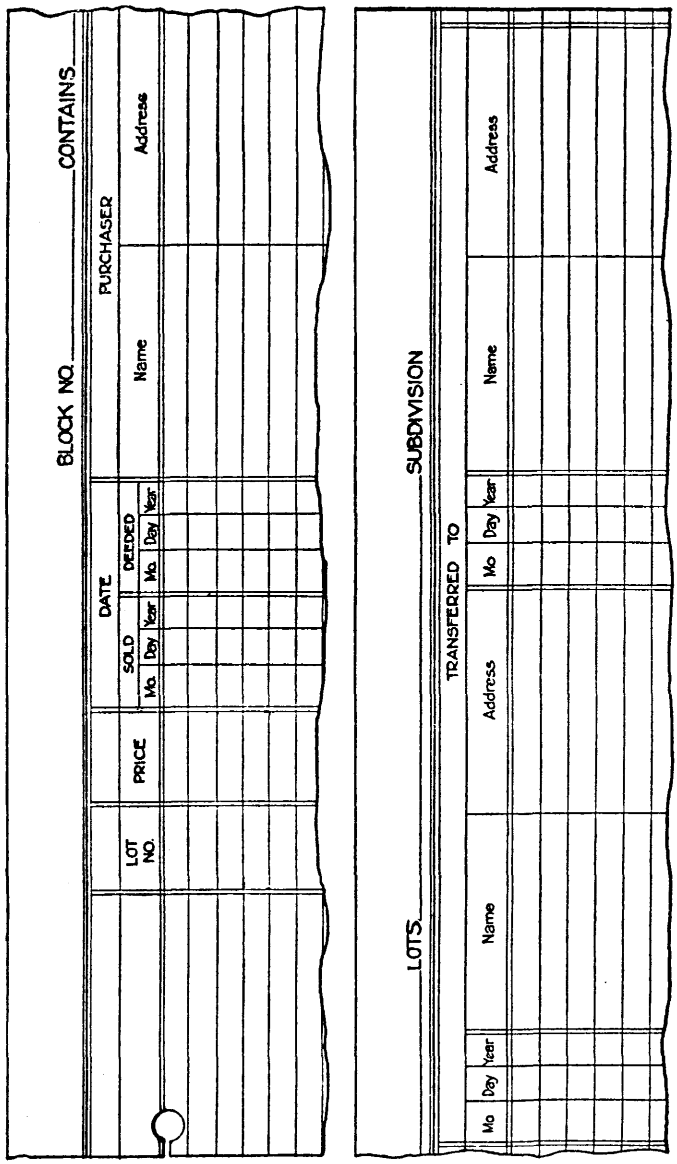
Property No........................
Located at ....
Name of assured
Beneficiary
Company
Policy No.
Date written
Term
Date expires
Amount $...............
Rate $
Premium $
Risk covered ....
....
Special clauses attached......................................
....
....
Written by ....

FORM No. 60—Loose-leaf fire-insurance record

22-31. Collection tickler is described in chapter XIII, which deals with collections.

22-32. Subdivision Tickler.

In the case of subdivision properties, it is well to have a separate tickler for each subdivision. The usual method of keeping this is either on cards or in loose-leaf books, each tickler being accompanied by a plat or map of the subdivision concerned. The plat should show clearly all lots in the subdivision owned by the company, those covered by option or by contract and those which have been conveyed to purchasers or others. To distinguish these various classes of lots, check marks of different colors may be used. Such plats are not only of daily use to the office force but also display clearly the facts which an auditor must have when verifying the amount of property on hand, as against the amount of money charged to such property in the real-estate ledger.



Form No. 61—Subdivision tickler

A loose-leaf form of tickler is shown in form 61. One leaf (or more) is devoted to a block (or corresponding division), and two or three lines are allowed for each lot in that block. On these lines appear the names of the purchasers, which in the case of time sales are best written in pencil, as transfers or assignments are of frequent occurrence.

22-33. Lot register and record of realized profits are described in chapter XX, dealing with profits.

Property Records

22-34. Property Index.

The purpose of the property index is to enable the bookkeeper to turn to the records of any piece of property, though only the name of the vendor is known. It furnishes a list of all real estate acquired. It is convenient to number each piece of property consecutively as it is acquired, and to give it some descriptive title, as the "Jones property", the "Carsley Hill property," or the name of a sub-

NO.	DESCRIPTION	A	B	C	D	E	F	G	H	I	J	K	L	M	N
1	L. 2, Smith addn			Caldwell, G. J.											
2	Bl. 20, Hope addn.								Hope, Jas.						
3	Lot 224, Jenkins Map						Fredericks, O.								

Form No. 62—Property index

division of a larger property, as "Lake Side." In any case, the name selected is entered on the property index in the column headed with the initial letter of that name, as indicated in form 62. Each piece of property should be entered immediately upon receipt of the deed. This index enables any employee, whether familiar with the accounts or not, to refer promptly to any particular property.

22-35. Field Records.

It is often well to have a record of wild lands or of city lots, which may be carried in the pocket. In such cases, the most convenient form is a small loose-leaf book, 5 x 7¾ inches, in which each page is devoted to one piece of property and shows the most important particulars. For lands divided into United States townships, pocket plats may be used, on each page of which a skeleton township is ruled.

22-36. An alternative method is to keep a card index, subdivided so that it is possible to remove quickly all the cards relating to a certain district and carry them when making an examination on the ground. A record of this sort is shown in forms 63 and 63-a. The particulars provided for are practically the same as those shown in the loose-leaf ledger mentioned above.

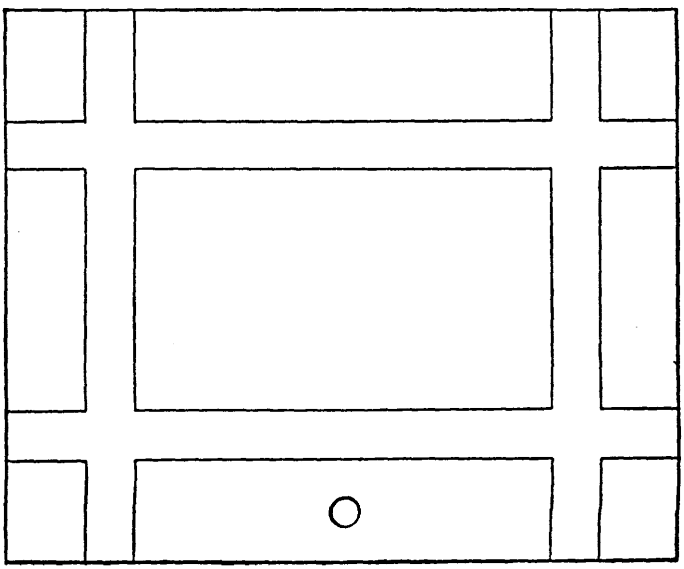
Such records are almost indispensable, as much information can best be obtained on the ground. With this pocket record, the desired information may be immediately entered in the proper place. The record also forms a tickler which may be carried on inspection trips or when showing properties to prospective purchasers.

PHYSICAL RECORDS

22-37. Plat Books.

Plat books are composed of plats of the lands described in the property ledger. In those states in which the United States township plan prevails, these plats can be most easily shown on the official government plats of each township, which may be obtained from the United States land offices and should be mounted on canvas before being bound. By the use of varied tints, different interests and

R E No.	No.		Price $
Bet.			
Height		Material	
Lot		Size	
Heated by		Rooms	
Lease		Plumbing	
Survey	Assd Val		Mtge
Price	Ins.		Due
Improvements			
Remarks		1st $	1st $
		2nd $	2nd $
		3rd $	3rd $
		4th $	4th $
		5th $	5th $
			Total-Rental $



Forms Nos. 63-63a—Card property record

different conditions may be more conspicuously shown on these plats than in a written record, although the property ledger must furnish the necessary information.

22-38. Wall Maps.

Wall maps should be of large scale and mounted on a backing sufficiently substantial to permit handling, marking lots and the insertion of colored pins to indicate sales, reservations, etc. (par. 6-7).

22-39. Lot Registers are discussed in chapter XX, on profits.

22-40. Current Price Lists.

It is important that the accounting department be furnished with current price lists and that it be notified of any changes which are made from time to time. Otherwise it will be impossible for that department to verify the accuracy of sales reported to it or for the management to be assured that the authorized prices are being maintained.

22-41. Equipment Record.

An equipment record may be kept on one of the stock forms sold by stationers. It should show the

Character of equipment
Original cost
Date acquired
Additional expense
Portions sold
Rate of depreciation
Amount of depreciation charged off periodically
Depreciated value
Particulars as to insurance, if any.

FORM No. 64—Equipment record

MISCELLANEOUS RECORDS

22-42. Trial Balance Book is discussed in chapter XXIII.

22-43. *Bank Reconciliation Book.*

It is usual for the bookkeeper to reconcile the balances shown on his cashbook with those shown on bank statements, but such reconciliations are generally kept on separate sheets. A far better practice is to keep a rough journal for this purpose, in which will be entered all such statements, showing the cashbook balance, the balance of the bank statement, all outstanding cheques and other items necessary to reconcile the two.

22-44. *Expense Analysis Books.*

When it is desired to analyze in detail any of the expense accounts, the ledger should not be burdened with the necessary number of accounts, but the analysis should be made in a columnar book. In the first column will be placed the accounts to be analyzed, while the remaining columns will be headed with the names of the subsidiary accounts which it is desired to identify.

This book is invaluable in analysing such accounts as general expense and construction accounts. If these accounts be subject to estimates, or to a budget, the amount allowed for each item may be placed at the head of a column so that a glance shows the relation of the expenditures to the estimates.

22-45. *Index of Customers.*

When a concern wishes to communicate with all its customers and the names of such customers may be scattered through a number of different records, there should be an index showing the name of every customer. To this there may be added the names of "prospects." This may be kept on a finely divided index, obtainable from commercial stationers, or on a small loose-leaf ledger. A card index is dangerous because cards are often taken out for some purpose and are not returned.

Whatever form may be selected, the record should contain the name of everyone to whom a contract or a deed has been issued, for no other single record contains this information—some names are in the current sales ledger, some in the sales ledger transfer and some in the record of deeds issued.

CHAPTER XXIII

Periodical Reports

23-1. The Object of Bookkeeping.

The whole object of keeping accounts correctly is to render possible the preparation of statements which will show to those who are interested the business which has been transacted and the results which have been obtained. These statements are usually submitted in the form of reports, which may be rendered for any period desired but are generally prepared at the close of each month and at the end of each fiscal year.

23-2. Reports Based on the Trial Balance.

While reports frequently include statistical information, such as the number of sales, the quantity of real estate sold and, possibly, some brief description of it, with other information which varies in different cases, the basis of such reports is financial. It is taken from the books of account, of which the trial balance is a summary and it is this fact which gives to that document its importance.

23-3. The trial balance takes many forms in practice, from a rough pencil memorandum on scratch paper to an elaborate typewritten document crowded with detail. As is often the case, the middle of the road offers the best path and, as suggested for analysis books in par. 22-44, it is advisable to relieve the general ledger of an excess of detail accounts through the use of analysis books.

23-4. While the trial balance is only a statement showing the balance of the accounts in the ledger, it is possible to arrange those accounts in groups so that the resulting statement gives, on its face, much of the information to be shown in the periodic report. For many years I have used and recommended the use of a permanent, classified, four-column form of record.

23-5. Requisites.

The requisites are a ring binder to take paper either 11 inches or 14 inches in depth, as may be preferred by the bookkeeper, and a supply of paper 8½ inches wide to fit it, with four money columns on the left-hand side of each sheet and a narrative column on the right-hand side. The accounts in the ledger are arranged in groups, as suggested in par. 21-7, and the numbers and names of the accounts are typed on the sheets, each group having its own sub-total.

23-6. "Short leaves" are also provided to fit the binder. Each one is ruled with four money columns, corresponding with those on the sheets of full width. The opening balances are entered on the wide sheets, which serve for an entire year and save the re-writing of account names each month, and each month the total debit entries and the total credit entries in each account are entered in the left-hand pair of columns on a short leaf sheet. The resulting balances are shown in the right-hand pair of columns, as in form 65.

23-7. This work is facilitated if there be used the four column ruling in the general ledger, recommended in par. 21-7; and the accounts should be arranged in the ledger as suggested in par. 21-8. The object is to show all changes which have occurred during the month and to indicate clearly whether the condition of each account has been strengthened or weakened during that month. For example: Have the collections on accounts receivable been equal to or less than new accounts which have been assumed? Do the collections on contracts bear a proper ratio to new contracts issued? Obviously, it is far more illuminating to show such changes on the face of the statement than merely to show the final balances, as was formerly the general custom.

23-8. If no instalment sales be involved, the trial balance can be arranged to show, approximately, the business transacted and the profit or loss resulting. If there be instalment sales involving un-

23-9-a.

TRIAL BALANCE—JUNE 30, 1934

1 Transactions in June Dr.	2 Cr.	3 Balances on June 30, 1934 Dr.	4 Cr.		*Expenses*
$ 252 00		$ 1,520 00		1	Advertising
121 00		750 00		3	Automobile expenses
1,750 00		8,100 00		5	Commissions
165 00		990 00		7	Depreciation
75 00		250 00		9	Directors' meetings
230 00		1,300 00		11	Expenses—general
200 00		1,100 00		13	Expenses—legal
450 00		1,400 00		15	Expenses—subdivisions
140 00	$23 00	830 00		21	Insurance in force, etc.
420 00		2,200 00		23	Interest
160 00		900 00		25	Life insurance
75 00		500 00		31	Postage
220 00		1,320 00		33	Rent
220 00		1,800 00		35	Repairs
400 00		2,400 00		39	Salaries—office
900 00		5,400 00		41	Salaries—officers'
80 00		500 00		43	Stationery and printing
55 00		750 00		45	Telegrams and telephones
65 00		570 00		47	Taxes
245 00	31 00	1,150 00		49	Transportation
180 00		640 00		51	Travel
$6,403 00	$54 00	$34,370 00			
23-9-b.					*Earnings*
82 00	143 00		542 00	71	Cancellation profits
	480 00		3,400 00	73	Commissions earned
	745 00		4,500 00	75	Interest
	2,300 00		21,800 00	81	Profits realized (on closed transactions)
25 00	1,050 00		7,400 00	85	Rents
$107 00	$4,718 00		$37,642 00		

FORM No. 65—Trial balance

23-9-c.

TRIAL BALANCE—JUNE 30, 1934

1 Transactions in June Dr.	2 Cr.	3 Balances on June 30, 1934 Dr.	4 Cr.		ASSETS
$ 1,200 00	$ 1,500 00	$ 1,500 00		101	Accounts receivable
450 00	220 00	1,220 00		103	Advances to salesmen
		2,600 00		105	Automobile
		16,000 00		107	Buildings—city
9,522 00	3,400 00	9,522 00		109	Cash
		2,800 00		111	Cash in escrow
1,800 00		7,600 00		113	Construction
8,400 00	2,100 00	46,500 00		115	Contracts—general
1,200 00	5,060 00	37,000 00		117	Contracts—subdiv. A
2,200 00	6,700 00	43,700 00		119	Contracts—subdiv. B
3,500 00	7,550 00	31,500 00		121	Contracts—subdiv. C
500 00		15,000 00		123	Dividends paid
950 00		3,800 00		125	Equipment
1,100 00		3,200 00		127	Improvements
740 00	1,200 00	2,600 00		129	Interest receivable
		850 00		131	Judgments
	2,200 00	55,000 00		135	Lands—acreage
7,000 00	13,500 00	62,000 00		137	Lands—city
		75,000 00		139	Lands—subdivision A
		80,000 00		141	Lands—subdivision B
		14,000 00		143	Lands—subdivision C
		9,900 00		145	Lands—subdivision C undeveloped
6,300 00	4,800 00	48,000 00		147	Mortgages receivable
910 00		2,800 00		149	Mortgage—expenses
570 00		1,430 00		151	Mortgage—insurance
1,400 00		3,200 00		153	Mortgage—interest overdue
220 00		760 00		155	Mortgage—taxes
630 00	980 00	2,560 00		157	Notes receivable
120 00		5,400 00		159	Office—furniture and equipt.
		200 00		161	Petty cash
320 00	160 00	820 00		163	Prepaid insurance
		250 00		165	Prepaid licences
1,130 00	1,250 00	800 00		167	Rent cash
$50,162 00	$50,620 00	$587,512 00			

FORM No. 65—(*Continued*)

23-9-d.

TRIAL BALANCE—JUNE 30, 1934

1 Transactions in June Dr.	2 Transactions in June Cr.	3 Balances on June 30, 1934 Dr.	4 Balances on June 30, 1934 Cr.		*LIABILITIES*
			$ 7,250 00	201	Accounts payable
			50,000 00	203	Bonds issued
		$15,000 00		205	Bonds retired
$ 1,270 00	$ 800 00		3,500 00	207	Commissions, contingent
			13,300 00	209	Contracts payable
145 00		1,270 00		211	Customers
			670 00	213	Dividends unpaid
850 00			3,200 00	217	Interest payable
				221	Lot sales at cost:
	200 00		23,000 00		Subdivision A
	5,400 00		18,000 00	223	Subdivision B
	700 00		14,000 00	225	Subdivision C
5,000 00	3,000 00		44,000 00	231	Mortgages payable
1,320 00	1,320 00			233	Mortgages int. overdue pay.
1,250 00	1,100 00		14,000 00	235	Notes payable
	570 00		3,680 00	237	Options granted
720 00				239	Overdue mtg. int. payable
$10,555 00	$13,090 00	$16,270 00	$194,600 00		
					NET WORTH
23-9-e.					
	475 00		2,400 00	301	Reserve for dep.—building
			1,080 00	303	Reserve for dep.—fur. & fix.
30 00			760 00	305	Reserve for dep.—equipment
			1,300 00	307	Reserve for dep.—auto
600 00			8,400 00	309	Reserve for develop—sub. A
1,100 00			2,200 00	311	Federal income tax
			78,800 00	321	Unrealized profits
			250,000 00	331	Capital stock
		8,200 00		333	Treasury stock
			46,000 00	335	Surplus
			23,170 00	337	Undivided profits
$ 1,730 00	$ 475 00	$ 8,200 00	$414,110 00		

FORM No. 65—(*Continued*)

23-9-f.

TRIAL BALANCE—JUNE 30, 1934
SUMMARY

1	2	3	4		
Transactions in June		Balances on June 30, 1934			*SUMMARY*
Dr.	Cr.	Dr.	Cr.		
$ 6,403 00	$ 54 00	$ 34,370 00		p. 1	Expenses
107 00	4,718 00		$ 37,642 00	2	Earnings
50,162 00	50,620 00	587,512 00		3	Assets
10,555 00	13,090 00	16,270 00	194,600 00	4	Liabilities
1,730 00	475 00	8,200 00	414,110 00	5	Reserves—net worth
$68,957 00	$68,957 00	$646,352 00	$646,352 00		

FORM No. 65—(*Continued*)

realized profits, the approximate results can be shown by adding to the results indicated by the trial balance a percentage of the collections on such sales.

23-9. *Illustration.*

In order to illustrate, there appears on pages 219-222 such a trial balance as might be taken from the ledger of a real-estate concern of moderate size doing a general business, the books having been closed on December 31, 1933, with comments on some of the more important accounts. Columns, 1, 2, 3 and 4 are on the short leaves above mentioned.

23-10 EXPENSES

Expenses call for little comment. The number of the accounts may be reduced or increased, as the needs of the case may indicate.

Account No. 25, life insurance, represents insurance premiums paid on the life of the president. It is preferable that such premiums be charged to expenses and not, as is sometimes done, shown as an asset in the balance-sheet. If it be insisted that the balance-sheet contain such an item, the figure shown should be the cash-surrender value of the policies at the date of the balance-sheet:

It will be seen that the total expense for June is	$ 6,403
against which there are credits amounting to	54
leaving the net expenses for the month	$ 6,349
and for the period of six months	$34,370

23-11 EARNINGS

As has been stated in par. 7-1, 18-3 et seq. sales may be divided into two classes, namely, (1) closed transactions in which the total consideration is paid at once and on which the profits are considered as realized immediately and (2) sales in which the payment is spread over a period and on which the profits are realized only as such payments are received by the vendor. This classification applies equally to all varieties of sales, whether they be of acreage, of city property or of subdivision lots, and the profits in class 1 can be carried at once, through a journal entry to realized profits, as shown in par. 7-7 and 21-9. If such sales be recorded through a sales journal, a special column can be provided in which they may be entered and so kept distinct from sales of class 2.

23-12 REALIZED PROFITS

The section, realized profits, of the trial balance shows the collections on all sales which are not regarded as closed transactions. In the case of subdivisions, the profit on the sales in any one subdivision is usually fairly uniform. In the present instance, let us suppose that the cost of lots in subdivision "A" is one-sixth of the sales price; in "B" it is one-fourth and in "C" one-fifth of the sales price. Then the realized profits on collections, respectively, will be five-sixths for "A", three-fourths for "B" and four-fifths for "C". If we apply these ratios to the collections shown in ledger accounts Nos. 117, 119 and 121 we find that the realized profits on these sales for June were:

"A"	five-sixths of	$5,060	or	$ 4,216.66
"B"	three-fourths of	6,700	or	5,025.00
"C"	four-fifths of	7,550	or	6,040.00
				$15,281.66

23-13

Profits for June are, approximately,

Earnings, per trial balance ($4,718–$107)	$ 4,611.00
Profits realized, as above	15,281.66
	$19,892.66
Less, expenses per trial balance ($6,403–$54)	6,349.00
Total profit for June	$13,543.66

23-14 OTHER MONTHLY STATEMENTS

While the net results of a month's business as shown above is the main purpose of monthly statements, subsidiary statements are frequently illuminating, such as the following:

Cash Statement, showing the total cash received, the source from which it has come, the purposes for which it has been disbursed and the balance remaining.

23-15. Analysis of Sales. Especially in the case of subdivisions such an analysis as the following may be prepared:

Number of lots sold........................		
For cash	$....................	
On time	$....................	
Options	$....................	
Total		$....................
Average price per lot	$....................	$....................
Estimated gross profit		$....................
Sales by salesmen: Salesman A	$....................	
" B	$....................	
" C	$....................	
etc., etc.		

The cancellations have numbered.......................................and amount to $....................

FORM No. 66—Monthly analysis of sales

23-16. Analysis of Contracts Accounts may be in such form as the following:

Balance due on contracts at the beginning of the month			$..................
New sales:	For cash	$..................	
	On time	$..................	$..................
			$..................
Less:	Collections	$..................	
	Discounts	$..................	
	Allowances	$..................	
	Cancellations	$..................	
	Total deductions		$..................
	Balance at the close of the month		$..................

FORM No. 67—Monthly analysis of contracts

Where purchasers are widely scattered, as often happens in the time of "booms", reports may be made showing their distribution by states, counties or towns.

ASSETS

23-17. No. 101 *Accounts Receivable* account is intended to receive entries regarding transactions which do not fall under any of the other headings.

23-18. No. 103 *Advances to Salesmen,* as stated in par. 15-6, should be discouraged or disallowed entirely. In the example $450 had been allowed in June, while $220.00 had been earned by salesmen through payments received from purchasers.

23-19. No. 105 *Automobiles* are shown at cost, as are all the other equipment accounts. The depreciation is shown on the liability side of the trial balance.

23-20. No. 107 *Buildings* account shows the cost, or estimated value, of buildings owned by the concern and situated on the city property shown in account No. 137. Depreciation appears in account No. 301.

23-21. No. 111 *Cash in Escrow.*

Frequently deeds and cash are placed with a trustee in escrow, pending the completion of certain transactions or the occurrence of stated events. These sums appear in a specific account.

23-22. No. 113 *Construction* account is intended to receive entries relating to new buildings which are being erected by the concern and, on completion, will be transferred to account No. 107.

23-23. Nos. 115, 117, 119, 121 *Contracts.*

The contract accounts show, respectively, the amounts unpaid on each class of contract and must be in agreement with the total balances as shown by the trial balances of the several contract subledgers.

No. 127 *Improvements.*

It may be desired to make certain improvements to property, such as acreage, or to groups of lots, the final distribution of which cannot be determined until after completion. Such items should be entered in an improvements account, which is in the nature of a suspense account.

No. 129 *Interest Receivable* account shows the interest due to the concern. It may be interest which has been collected or that which has accrued and is collectible, depending upon the method which is followed in the accounts.

No. 131 *Judgments.*

In the foreclosure of mortgages, contracts, etc. judgments may be obtained against debtors and such judgments are carried in a special account.

23-24. No. 135 *Land—Acreage.*

The acreage account shows the cost of all acreage land owned by the concern. In the example, it is charged with all purchases and credited with all sales, so that the balance represents the cost of land remaining on hand. The account may be divided to any extent desired, so as to show holdings by counties or according to the character of the land, such as farming, timber, mining, etc. In the case of pine timber lands, it may be desirable to show separately the values of the timber, the turpentine rights and the soil, as explained in par. 3-9.

If desired, sales, instead of being credited to this account, may be credited to a "land sales" account, which shows continuously the amount of sales made and, usually, is credited to the land account whenever the books are closed.

23-25. No. 137 *City Property* account is similar to No. 135, acreage property, and may be treated in precisely the same manner.

23-26. Nos. 139, 141, 143 *Subdivision Properties* accounts show the cost of a subdivision and when development is completed. Generally the amount remains unchanged until the entire subdivision is sold.

This class of account must be considered in conjunction with accounts relating to sales of lots and to reserves for development (Nos. 221,223, 225, 309, etc.). This is explained in the following chapter, in which the balance-sheet is discussed.

23-27. No. 161 *Petty Cash.*

A round sum should be placed in petty cash, sufficient to care for current needs, and the amount usually remains unchanged. A petty-cash account should be kept on the imprest system.

23-28. No. 163, 165 *Prepaid Expenses* accounts represent premiums and licences which have been paid in advance. Occasionally, taxes may fall under a similar head.

No fixed rule can be given for these accounts. If the amounts can be estimated for a year, one-twelfth of the estimated amount should be charged each month to "insurance" or "licences" and credited to this account, which is charged with all premiums and licences as they are paid. If it be impossible to determine the amounts in advance, payments must be charged to insurance, licences, etc. as they are made, and, when the books are closed, a statement can be prepared to show the unearned portions of such amounts, which can be carried to the balance-sheet.

23-29. No 167 *Rent Cash* account is intended to show the amount held on account of rents collected for clients, as described in chapter XXVII.

23-30. No. 145 *Subdivision "C", Undeveloped.*

Only a portion of the tract owned was developed as unit No. 1 of subdivision "D", and the undeveloped portion is carried in a separate account.

23-31. Nos. 149, 151, 153, 155 *Mortgages Receivable.*

In the example each of the various charges made against mortgagors is shown separately. This is generally advisable if the number of items be large. In any event such charges should be kept and shown apart from the principal amounts due. It must always be remembered that in time sales it is not the amount of money received on such a sale which serves as a basis on which to calculate the realized profits but it is rather the amount by which payments reduce the principal remaining unpaid.

23-32. No. 157 *Notes Receivable* call for little comment. In this account any notes received which are not secured by mortgage or contract are entered.

LIABILITIES

23-33. No. 201 *Accounts Payable Account* shows the amount of current bills unpaid and, if a voucher system be maintained, it is often known as a voucher account or as unpaid vouchers. It is credited with all vouchers or accounts payable as entered and is charged with all payments made thereon which appear in the cashbook.

23-34. No 207 *Contingent Commissions* are discussed in chapter XV. In the example insufficient first payments on sales have resulted in contingent commissions to the amount of $800, while receipts on former sales have been sufficient to warrant the payment of $1,250.00.

23-35. No. 209 *Contracts Payable* are contracts which the concern holds on lands which it is buying. Their treatment calls for no special comment.

23-36. No. 211 *Customers.*

The concern frequently pays expenses on behalf of the clients, such as taxes, legal expenses etc. These are charged in a special account and, if there be a rent department, the balances due to clients may be included. Unless the number of such clients be very small, a sub-ledger for their accounts should be maintained.

23-37. No 213 *Dividends Unpaid* are dividends which have been declared but, for lack of address or some similar reason, have not been paid.

23-38. No. 217 *Interest Payable Account* is the reverse of No. 129, and in it is entered all interest payable except that on mortgages. Like No. 129, it may be kept on the cash or on the accrual basis, whichever be desired.

23-39. Nos. 221, 223, 225 *Lot Sales Accounts* are credited with the cost of all lots sold in the subdivisions mentioned. When the balance of any one of these accounts is deducted from the balance of the corresponding account, Nos. 139, 141, 143, the remainder is the cost of lots remaining unsold.

23-40. Nos. 231, 233 *Mortgages Payable.*

The treatment of mortgages payable is similar to that given mortgages receivable. In the example, interest fell due and was paid in June, to the amount of $1,320, while new mortgages had been made for $3,000 and mortgages had been paid off amounting to $5,000.

No. 235 *Notes Payable Account* shows any notes given by the concern which are not secured by real estate.

23-41. No. 237 *Options Granted Account* shows the total amount received from prospective customers on options or "binders". No receipts occurred in June, but options amounting to $720 had been converted into sales of some form. Directions for keeping accounts of these sales are given in par. 7-10.

23-42. No. 239 *Overdue Mortgage Interest Payable Account* is credited with all interest on mortgages payable by the concern as it falls due, while all payments of such interest are charged to the account. The balance is the interest which has matured and remains unpaid.

If the interest on mortgages and bonds remain fairly constant throughout the year, one-twelfth of it should be charged to interest each month and credited to such an account as No. 239.

23-43. Nos. 301, 303, 305, 307 *Reserve (or provision) for Depreciation* is credited, periodically, with the amount of depreciation chargeable on buildings and various forms of equipment. This amount is charged to No. 7, depreciation.

23-44. No. 309 *Reserve for Development* represents the estimated amount to complete the development of subdivision "A" which was included in the cost of the lots. To it are charged all expenditures made for this particular purpose. Under the current ruling of the treasury department, such accounts can not remain open longer than five years. (See par. 4-9 et seq.)

23-45. No. 311 *Federal Income-tax Account* is credited each year with the amount of tax due. It is charged with payments as made, whether quarterly or otherwise. In the example, $2,200 of the tax for 1932 remains unpaid.

23-46. No. 321 *Unrealized Profits Account* is credited each month from the sales journal with all the unrealized profits on sales. It is charged with cancellations as they occur and, at the end of a fiscal period, is charged with the amount of the profits which are found to have been realized, as described in chapter XX.

23-47. Nos. 331, 333 *Capital Stock and Treasury Stock.*

In the real-estate business, perhaps more often than in others, its own capital stock is sometimes acquired by a corporation, frequently in exchange for property. Such stock is treasury stock and must not be confused with unissued stock, which need not appear on the ledger.

23-48. No. 335 *Surplus* represents only profits which have been earned and not distributed. It should never include surplus arising from re-appraisals, which should be shown separately. See chapter XXIV.

23-49. No. 337 *Undivided Profits* represents earnings of former periods which have not been distributed or reserved for any special purpose.

CHAPTER XXIV

The Balance-Sheet and Annual Reports

24-1. Form of balance-sheet. The general form in which a balance-sheet should be prepared is now so widely recognized that it is unnecessary to discuss it here. It is sufficient to say that a concern should follow as closely as possible the lines laid down in the pamphlet prepared by a committee of the American Institute of Accountants and published and approved by the federal reserve board, entitled *Verification of Financial Statements.*

The typical trial balance given in form 65 is dated June 30th, and I now submit a balance-sheet of that date and a profit-and-loss statement for the six months beginning January 1st, with such comments as appear to be necessary.

24-2. Before preparing such a statement, all accounts should be carefully examined; all worthless contracts, mortgages and notes should be written off; the correctness of the trial balances of all sub-ledgers should be proved; the lists of real estate owned—which is the inventory of a real-estate concern—should be verified; and the sales department and accounting department should compare their records and see that they are in agreement.

The balance-sheet will then take a form similar to form No. 68. It will be seen that this statement is a logical and conventional arrangement of the figures which appear in the trial balance.

BALANCE-SHEET

24-3.

ASSETS

Cash in banks		$ 9,522 00
Cash in escrow		2,800 00
Petty cash		200 00
Rent cash		800 00
Notes receivable		2,560 00
Accounts receivable		1,500 00
Interest receivable		2,600 00
Customers		1,270 00
Mortgages—receivable	$ 48,000 00	
" —expense	2,800 00	
" —insurance	1,430 00	
" —interest	3,200 00	
" —taxes	760 00	56,190 00
Contracts—general	46,500 00	
" —subdivision "A"	37,000 00	
" — do "B"	43,700 00	
" — do "C"	31,500 00	158,700 00
Automobiles—at cost	2,600 00	
Less depreciation	1,300 00	1,300 00
Equipment—at cost	3,800 00	
Less depreciation	760 00	3,040 00
Furniture and fixtures at cost	5,400 00	
Less depreciation	1,080 00	4,320 00
Real estate, per exhibit A-2 attached		256,900 00
Advances to salesmen		1,220 00
Judgments		850 00
Prepaid expenses—insurance	820 00	
" " —licences	250 00	1,070 00
		$504,842 00

FORM No. 68—Balance-sheet

BALANCE-SHEET

LIABILITIES

Accounts payable			$ 7,250 00
Notes payable			16,200 00
Contingent commissions			3,500 00
Dividends unpaid			670 00
Interest payable			3,200 00
Options granted			3,680 00
Mortgages payable		$ 44,000 00	
Overdue mortgage interest			44,000 00
Contracts payable			13,300 00
Bonds issued (authorized $75,000.)		50,000 00	
Bonds retired		15,000 00	35,000 00
Provision for federal income tax			4,725 88
Unrealized profits			43,800 00
NET WORTH:			
Capital stock (authorized $300,000.)		250,000 00	
Less treasury stock		8,200 00	
		241,800 00	
Capital surplus		5,000 00	
Surplus from appraisal		15,000 00	
Surplus paid in		26,000 00	
Undivided profits Jan. 1, 1934	$23,170 00		
Less dividends paid	15,000 00	8,170 00	
Profits for 6 months ended June 30, 1934		33,546 12	
			329,516 12
			$504,842 00

Contingent liabilities—none

EXHIBIT A-2.

24-4. *REAL ESTATE*

Real estate, all shown at cost		
Acreage land		$ 55,000 00
City lots		62,000 00
" buildings	$ 16,000 00	
Less depreciation	2,400 00	13,600 00
Subdivision "A" cost	75,000 00	
Less reserve for completion	8,400 00	
	66,600 00	
Less sales at cost	23,000 00	43,600 00
Subdivision "B" cost	80,000 00	
Less sales at cost	18,000 00	62,000 00
Subdivision "C" cost developed portion	14,000 00	
Less sales at cost	14,000 00	
Subdivision "C" undeveloped	9,900 00	9,900 00
House under construction		7,600 00
Undistributed improvements on acreage		3,200 00
		$256,900 00

Form No. 68—Balance-sheet

24-6. Real estate is shown in a separate exhibit, as the inclusion of the detail involved would tend to confuse the balance-sheet. Income tax, while calculated for the half year, is set up under "provision for federal income tax" because it is not finally determinable, or payable, until the end of the fiscal year. When that time arrives, the amount should be shown among the liabilities as "federal income tax" as it is then a definite liability. If its determination involves some questions as to which the answer is uncertain, this fact should be set forth in the comments and then the term "provision for estimated income tax" may well be used.

On the liability side of the statement, certain important facts are added as to the amount of bonds and of capital stock which are authorized. Dividends paid are shown as a deduction from undivided profits.

PROFIT-AND-LOSS ACCOUNT

24-5.

For the six months ended June 30, 1934.

INCOME (earnings or revenue)		
Cancellation profits	$ 542 00	
Commissions earned	3,400 00	
Interest receivable	4,500 00	
Profits on closed transactions	21,800 00	
Rents	7,400 00	
Realized profits on collections	35,000 00	$72,642 00
EXPENSE		
Advertising	1,520 00	
Automobile expense	750 00	
Commissions	8,100 00	
Directors' meetings	250 00	
Expenses general	1,300 00	
" legal	1,100 00	
" subdivision	1,400 00	
Insurance, fire, liability, etc.	830 00	
Interest payable	2,200 00	
Life insurance	900 00	
Postage	500 00	
Rent	1,320 00	
Repairs	1,800 00	
Salaries, offices	2,400 00	
" officers'	5,400 00	
Stationery & printing	500 00	
Taxes	1,560 00	
Telegrams & telephones	750 00	
Transportation	1,150 00	
Travel	640 00	34,370 00
Net profit for the period before deducting income tax		$38,272 00
Provision for federal income tax		4,725 88
Net profit carried to undivided profits		$33,546 12

FORM No. 69—Profit-and-loss account

24-7. Mortgages receivable are shown as an asset worth $48,000, their face value. It is assumed that they have been examined and all are believed to be good. Where a mortgage is for a greater amount than the value of the property securing the debt, it may be desirable to write off some portion of the asset before foreclosure is completed or before some compromise is made with the mortgagor. The usual plan is to open an account such as "mortgages in settlement", to which all such mortgages are transferred. If desired, an account on the credit side of the ledger, such as "mortgage deficiency account" may also be opened. This account is then credited with the estimated amount of the deficiency which it is expected will be charged to the profit-and-loss account. Inasmuch as such losses are not deductible for federal income-tax purposes until finally determined, this procedure is not as common as it was formerly; but cases will arise when the management will desire to write off immediately losses which are known to exist, even if they be not deductible.

24-8. Surplus Account. Perhaps there is no business where the surplus account is more mis-used than in real estate; therefore this account should always be carefully prepared. Although the matter has been the subject of much discussion, opinions are still divided as to the full definition of the term "surplus account". This is not the place to pursue the discussion, but it should always be remembered that the term, when unqualified by some adjective, should represent nothing but money paid in to it or profits which have been realized in the regular course of business and transferred to it.

Such profits as those arising from the purchase of treasury stock or from re-appraisals, should always be shown separately, each under its own heading. Inasmuch as many real-estate concerns often trade their properties for their capital stock and as re-appraisals are not uncommon, the surplus account is sometimes unduly swelled. The balance-sheet should always show on its face the changes which have occurred during the period since the preceding balance-sheet and, if such changes be numerous, a separate analysis of them should accompany the statement.

24-9. In the example, the trial balance shows one surplus account, although it might have been better to show three. On preparing the balance-sheet the account was analyzed and it was found that of the total \$46,000, \$5,000 arose through the purchase of treasury stock and, therefore, should be placed under capital surplus, while \$15,000 arose from a re-appraisal of certain properties and should be shown as such.

24-10. When real estate owned by the concern is exchanged for capital stock of the concern, care should be taken to see that proper valuations are placed on the property. Generally, the cost price of the property is the proper figure to use and no taxable profit would then be realized. The difference between this cost price and the par value of the stock could be credited to capital surplus and no taxable profit would appear until the sale of those particular shares of stock, when capital surplus might be wiped out and any profit might properly be credited to the surplus account.

24-11. Contingent Liabilities. Few businesses present so many opportunities for contingent liabilities as does real estate. The difficulty with respect to contingent liabilities is not to cook the hare, but to catch it. In times of phenomenal activity, property may change hands many times between the date of the agreement to sell, made with the original owner, and the time of delivery of a deed to the purchaser who intends to develop or improve the property. Each of these transfers is at an advanced price and many of them involve the assumption by the purchaser of existing mortgages. For example, property owned by A is sold to B, who assumes a mortgage and sells to C, and these operations are repeated until F buys it. In such circumstances, A, B, C, D and E consider themselves free of the liability under the mortgage, yet if F fails to meet the obligation, it falls on E and may, quite conceivably, finally come back to A.

24-12. The situation is further complicated when one of the purchasers is a syndicate or partnership the members of which are jointly and severally liable. In such circumstances it is sometimes impossible to make a definite statement as to the amount of the contingent liabilities, but this affords no excuse for disregarding them or for failing to mention them in a report.

In times of feverish real-estate activity the desire to purchase becomes so strong as almost to justify the statement that mere mortgages are not seriously considered and that, provided the cash payment be small enough, a purchaser will assume any mortgage rather than miss the opportunity to buy land which he is confident he can sell quickly at a profit. If, as has happened in thousands of cases, the purchaser has not time even to look at the land, how can he be expected to pay much attention to the existence of mere mortgages?

24-13. In such circumstances, the liabilities relative to real estate may be divided into three classes: (a) legal, (b) moral and (c) immoral. The first consists of those liabilities, either actual or contingent, appearing on his books, for which the owner is liable. The second class consists of items which are included in (a) but in which the liability is assumed jointly and severally by partners and on which, if things go well, the owner will be called upon to pay his share only. The third class originates to the ultra-optimistic salesman who makes unwarranted representations; the record of these liabilities can be found only in the books of the recording angel.

24-14. The profit-and-loss account calls for little comment, as most of the figures have been discussed in the previous chapter. The realized profits are obtained from such a record as form 34 (See par. 34-17) by the methods which are explained in chapter XX. The statement should set forth clearly and in detail all the business which has been transacted during the period under review. This truth is being more generally recognized each year, for bankers, investors and business men have come to realize that no balance-sheet alone can give a complete picture of any enterprise, but it must be accompanied by a statement of profit and loss. Sometimes this should show the results achieved, not only for the period under review, but for several previous periods.

The trial balance (par. 23-9-e) shows unrealized profits $78,800, which includes all such profits on all sales made to date (after deducting profits realized at former closings of the books). Of this amount a portion has been realized on collections made during the six months ended June 30th. Following the methods described in chapter XX, it is found that of the total of $78,800, there has been realized $35,000 which may be credited to the profit-and-loss account, while $43,800 is still unrealized and, therefore, is shown as a reserve on the balance-sheet.

The item "provision for federal income tax, $4,725.88" does not appear on the trial balance, because it is not brought on the books, and can not be determined until the operating accounts have been closed at the end of a fiscal period, or—more probably—at the end of a taxable year.

24-15. Statements to Accompany an Annual Report. In addition to the statement of profit and loss and analysis of surplus, other statements are usually required. One of the most important of these is a comparative balance-sheet (which may be in a condensed form) showing comparison of the current statement with similar statements for one or more previous periods. In the example, such a statement might be in the form which appears on page 240.

From this comparative condensed balance-sheet there can easily be prepared a statement of resources and their disposition, which shows in the clearest manner possible, the changes which have occurred in the financial condition. It may be in the style shown in form 71.

24-16.

CONDENSED COMPARATIVE BALANCE-SHEET

June 30 1934	December 31, 1933	Assets Increased	Assets Decreased	Assets
$ 10,522 00	$ 8,350 00	$ 2,172 00		Cash
2,800 00		2,800 00		Cash in escrow
4,060 00	5,650 00		$ 1,590 00	Notes & accounts receivable
2,600 00	1,980 00	620 00		Interest receivable
1,270 00	670 00	600 00		Customers
56,190 00	52,800 00	3,390 00		Mortgages, expense, int., etc.
158,700 00	94,500 00	64,200 00		Contracts
8,660 00	9,000 00		340 00	Equipment, depreciated
256,900 00	276,600 00		19,700 00	Real estate
1,220 00	1,700 00		480 00	Advances to salesmen
850 00	850 00			Judgments
1,070 00	1,460 00		390 00	Prepaid expenses
		73,782 00	22,500 00	
$504,842 00	$453,560 00	$51,282 00		
		Liabilities		Liabilities
$ 23,450 00	$ 19,750 00	$ 3,700 00		Notes & accounts payable
3,500 00	3,800 00		$ 300 00	Contingent commissions
670 00		670 00		Dividends unpaid
3,200 00	2,600 00	600 00		Interest payable
3,680 00	2,350 00	1,330 00		Options
				Taxes accrued
44,000 00	34,500 00	9,500 00		Mortgages payable & int.
13,300 00	13,750 00		450 00	Contracts payable
35,000 00	40,000 00		5,000 00	Bonds outstanding
4,725 88	4,640 00	85 88		Federal income tax
43,800 00	36,200 00	7,600 00		Unrealized profits
241,800 00	241,800 00			Capital stock outstanding
46,000 00	46,000 00			Surplus
41,716 12	8,170 00	33,546 12		Undivided profits
$504,842 00	$453,560 00	$57,032 00	$5,750 00	
		$51,282 00		

FORM No. 70—Condensed comparative balance-sheet

24-17.

STATEMENT OF RESOURCES AND THEIR DISPOSITION.

Resources:		
Profits for the six months		$33,546 12
Assets decreased:		
Notes and accounts receivable	$ 1,590 00	
Equipment	340 00	
Real estate	19,700 00	
Advances to salesmen	480 00	
Prepaid expenses	390 00	22,500 00
Liabilities increased:		
Notes & accounts payable	$ 3,700 00	
Dividends unpaid	670 00	
Interest payable	600 00	
Options	1,330 00	
Mortgages payable	9,500 00	
Federal income tax	85 88	15,885 88
Unrealized profits		7,600 00
		$79,532 00
Disposition of the above:		
Assets increased:		
Cash	$ 2,172 00	
Cash in escrow	2,800 00	
Interest receivable	620 00	
Customers	600 00	
Mortgages receivable & charges	3,390 00	
Contracts	64,200 00	73,782 00
Liabilities decreased:		
Contingent commissions	300 00	
Contracts payable	450 00	
Bonds outstanding	5,000 00	5,750 00
		$79,532 00

FORM No. 71—Statement of resources and their disposition

24-18. In addition to all the above there should be schedules showing the items included in various totals, such as

Notes receivable
Customers' accounts
Mortgages receivable, with interest, etc.
Contracts of every class shown on the balance-sheet
Equipment, if the amount be important
Real estate. It is seldom practicable to give schedules showing each lot owned, but there may be schedules showing the acreage held in various counties or of various classes; the number of lots may be shown for subdivisions, etc.
Depreciation
Prepaid expenses. The insurance premiums should be given on a statement showing each policy held by the concern, the property covered, the annual premium, the unearned premium and any other facts of importance.
Accounts payable
Notes payable
Options granted, if the number be large
Mortgages payable
Taxes, especially if any of these be delinquent and subject to penalties.

CHAPTER XXV

Manual of Instructions

25-1. (Note) It is important that the concern, its employees and its accountant shall clearly understand and agree upon the system of records and the method of accounting to be followed, and it has been found that this end can best be reached by a typewritten manual which, after free discussion, as suggested in par. 2-3, has been approved by all who are concerned.

In ordinary times such a manual is valuable to the bookkeepers, especially when officers are absent or changes occur in the staff. When activity is great, or when a large subdivision is placed on the market, such a manual is essential if the best results are to be obtained. At such times, there are many salesmen and others whose engagement is temporary, and it is well for the sales manager to assemble his forces in advance of the opening day and teach them the routine to be followed. This can best be done by having each of them prepare all the papers required for some imaginary sale.

The following manual is prepared from several which have been in use and have proved to be satisfactory. In practice, it is typewritten and indexed, each sub-head on a fresh page. Enough copies should be made to supply the sales and bookkeeping departments.

In this manual it is supposed that the sales office and the accounting office are separate. If they be in the same quarters, one set of records may sometimes be omitted, but if sales be very active, the full set should be maintained.

25-2. *Manual of Instructions.*

The sales department will be under the direction of the sales manager who, with his assistants, will direct all the salesmen and other employees under them.

25-3. Objects of the Records.

The object of the sales-department records is to enable anyone in that department to obtain quickly, without reference to any other department, all the essential particulars regarding any lot and to furnish proof, when the subdivision is all sold, of all the transactions which have occurred.

25-4. All records will be made in duplicate, one set for the accounting and one for the sales department; each set will be recorded in three ways, namely:

1. One set under the name of the purchaser.
2. One set under the lot description.
3. One set under the sale number.

The first record of a sale which will reach the office is the application, or sales slip, form No. 72, (See pages 245-246) which will be completed in triplicate,

One copy for the purchaser.
One copy for the sales department.
One copy for the accounting department.

As soon as a salesman makes a sale, he will fill out this form, giving all the particulars required, and have the purchaser sign each of the three copies. He will also obtain a cheque for the whole or for a part of the initial payment.

The salesman then signs the three copies and delivers the original to the purchaser.

25-5. The duplicate and the cheque are delivered to the sales manager.

The sales manager will examine the slips and, if they be correct, he will initial them, affix the sale number and will himself enter each lot involved in the sales-department lot register, form No. 2 (par. 6-8) and also mark it appropriately on his copy of the plat. He will then send it to be typewritten.

PRESIDENT DIRECTOR OF SALES

Realty Company

APPLICATION FOR PURCHASE

No.........................

Date ...., 193........

To REALTY COMPANY.

I, ..., hereby
(Give one full first name)
make application to purchase, subject to restrictions and reservations, for

$.................................., payable 20% in cash on signing of contract of sale, and the balance in eight equal quarterly instalments, with interest at six per cent. (6%), payable quarterly,

Lot........................, Block, ..., Section........................
of Subdivision, according to plat which is recorded, or about to be recorded, in the office of the clerk of the circuit court in and for County, New Hampshire. Herewith I hand you cheque in

the sum of...dollars, to apply in the event this application is accepted by you against the above-mentioned initial cash payment. If this application be accepted by you, I agree within five (5) days from date to pay you any unpaid balance of said initial cash payment, and to execute contract of sale, and if I fail to do so I agree that the amount paid herewith shall be retained by you as liquidated damages. If this application is not accepted by you the sum paid herewith is to be returned and you shall be released from any liability hereunder.

Single ☐
Married ☐
Widow ☐

Received this application and above mentioned cheque for transmission to Realty Company.

....
Signature of applicant

....
Permanent address

....
Salesman

....
Temporary address

Salesman	Map checked	Contract approved........
Closer	Day sheet.......................	Contract signed ....
Order approved...........	Contract made..............	Contract delivered ....
Money received	Contract checked..........	Deed ordered................

ALL PAYMENTS MUST BE MADE BY CHEQUE PAYABLE TO REALTY CO.

FORM No. 72—Application to purchase—alternative forms

DEPOSIT ON PURCHASE FROM

Corporation

CONTRACT NO.

....

CONCORD, N. H.,......................193.....

I HEREBY AGREE to purchase lot..........., block..........., County, New Hampshire, on the following terms:

$...................... cash of which this deposit will be a part, and the remainder of the purchase price to be evidenced by promissory notes due and payable as follows: fourteen per cent (14%) of the purchase price six months from date hereof, fourteen per cent (14%) in twelve months, fourteen per cent (14%) in eighteen months, fourteen per cent (14%) in twenty-four months and fourteen per cent (14%) in thirty months, all notes to bear interest at the rate of six per cent (6%) per annum, payable semi-annually.

PURCHASE PRICE $..................................

CASH PRICE $..................................

This deposit is subject to prior sale of the property mentioned and shall become binding on the owner only when approved in writing by the owner's director of sales.

Seller's usual form of contract with restrictions and reservations, and the notes evidencing deferred payments will be executed and cash payment will be made upon notice that formal papers are ready for purchaser's signature; otherwise the deposit will be forfeited. The liability of the owner upon acceptance hereof shall in no event be greater than to refund the money deposited hereunder. This instrument shall not be recorded. In case the privilege of purchase, created when the owner approves in writing as herein provided, is not exercised and the provisions hereof fully performed by the purchaser within five days after notice of such approval, the privilege shall thereupon wholly cease, and all rights hereunder shall be deemed cancelled and terminated.

Sale approved ...., 193.....

....

Director of sales

.... Permanent address	.... (Full name to appear in contract)
.... Temporary address	.... (If married woman, husband's name)
	ABOVE DEPOSIT RECEIVED
.... Where contract to be sent for signature	.... Salesman

Form No. 72—(alternative.)

The typist will:

1. Enter the name and number of sale in the alphabetical index. (par. 22-45)
2. Pin the cheque to the third copy.
3. List all the day's sales on the day sheet, form No. 73 (see page 248)
4. When the day's sales are listed, pass to the auditor one copy of the day sheet and all the corresponding copies of the sales slips, with a cheque attached to each slip.
5. File the third copy of the sales slip in a binder in numerical order.

25-6. The lot register and the alphabetical index here mentioned, while similar to the records kept by the accounting department, are distinct and belong exclusively to the sales department.

25-7. Where a purchaser pays only a portion of the regular initial payment, the sale is entered on the sales department tickler. (Par. 13-5.)

From each sales slip a typist prepares the contract or deed in duplicate and gives it to the sales manager, who checks it.

The number given to the sales slip follows the transaction through all the records until it is completed.

25-8. As a rule, a separate contract should be made for each lot, to facilitate transfer by the purchaser. The only exception is where two or more adjoining lots are bought and together form the site for one building.

When the initial payment is completed, the salesman will have the purchaser sign both copies of the contract, together with the accompanying notes, and will return them to the sales manager, who will obtain execution by the president, will forward one copy to the purchaser, one copy and the notes to the auditor and will enter delivery of the contract on his lot register.

(Note.) In some offices, the contract is executed by the officers of the concern before it is presented for signature to the purchaser—the choice between the two methods depends upon the circumstances surrounding each case.

This closes the transaction, so far as the sales department is concerned.

---------------- REALTY CO.

DAY SHEET

SHEET NO.______

DATE______

PROPERTY SOLD			SALE NO.	PURCHASER	SALESMAN	SELLING PRICE			Initial Payment Rec'd with Order	Balance of Initial Payment		CONTRACT PAYABLE
LOTS	BLK	SEC.				LIST	DISCOUNT	ACTUAL		AMOUNT	DUE	
				TOTAL FOR TODAY								
				AMOUNTS BROUGHT FORWARD								
				AMOUNTS CARRIED FORWARD								

FORM No. 73—Day sheet of sales

25-9. Sales-Department Cashier.

(Note.) Where the sales office is at a distance from the administrative offices, a sales cashier is usually employed. His procedure would be as follows:

The cashier will receive from the manager all cheques as soon as the applications to purchase are approved, together with the duplicate sales slip.

He will immediately enter these on the daily cash sheet in duplicate, form No. 75, and see that all the required information is given.

He will prepare a receipt on form No. 74 (par. 25-9) and send it to the purchaser.

(Note.) If only one sub-division be on sale, these receipts may be printed on paper the size of bank cheques, with several receipts on a page.

25-10. Each morning the cashier will enter on the cash sheet, form No. 75, the total of the sales for the previous day, endorse all cheques for the concern and deposit the entire amount, as shown on the daily cash sheet, to the credit of the concern with the . . . bank, have the deposit entered on the pass-book and also have the bank teller stamp the original daily cash sheet which will then be immediately sent to the treasurer.

(Note.) Where there is a cashier, it is usually he who forwards duplicate sales slips to the auditor and keeps the sales-department tickler. He would furnish to the sales manager each day a list of the contracts on which further portions of initial payments are due.

25-11. To Recapitulate.

The sales department must be able to refer instantly to any transaction if the name of the purchaser, the number of the lot or the number of the sale be known. This is rendered possible by the maintenance of

(a) An alphabetical list of all purchasers. This can be kept on an index, which is commonly kept in stock by stationers.

Realty Company

, President

SAN DIEGO, CALIFORNIA

....193......

Received of...

....

the sum of...

....

to be credited as follows:

....

Contract No................................ quarterly payment No................................

For purchase of lot...................... block .... $..................................

.... $..................................

.... $..................................

.... $..................................

.... $..................................

REALTY COMPANY,

By...

....

ALL PAYMENTS MADE TO THE COMPANY MUST BE ACKNOWLEDGED ON THIS FORM WHICH IS MADE IN DUPLICATE.

Form No. 74—Receipt for cash

CONSOLIDATED .... CORPORATION N? 1994

COLLECTION SHEET FOR ____________ 193__

RECEIPT NO.	PAYER	No.	WOODLAWN MORTGAGES	INDIANAPOLIS		INTEREST	MISC.	TOTAL
				MORTGAGES	CONTRACTS			

Form No. 75—Daily cash sheet

(b) A record of the transactions affecting each lot. This history is found in the lot register (par. 20-17).

(c) A list of all sales, arranged in numerical order. This is provided in the permanent file of the triplicate copies of the sales slips.

25-12. Sales Department—Subsidiary Records.

In order to keep the salesmen fully informed, the following forms are often used. They may be printed on paper 4″ x 6″ of different colors.

(a) Lot status. To show the current condition of a lot concerning which information is desired.

(b) Prospects. To record prospective purchasers.

(c) Reservations. To notify salesmen of lots which have been reserved for any customer or for any purpose.

(d) Sold. To advise salesmen of the sale of a lot.

(e) Open. To inform salesmen that a lot previously reserved is now open for sale.

LOT STATUS

Date.............................

To sales manager:

Please advise the status of the following

....

Lot Block Section

(Signature).............................

FORM No. 76—Lot status

The forms for (b), (c), (d) and (e) are similar.

25-13. Accounting Department.

The first information relative to a sale which will reach the accounting department is the sales slip, form No. 72 (par. 25-4) which will be accompanied by a cheque.

These slips will be filed in numerical order in a ring binder and will form the permanent record of all sales.

(Note.) If these forms come from the sales-department cashier, his daily cash sheets, form No. 75 (par. 25-9) will also be permanently filed in a binder.

The auditor will make the following entries:

1. In the cashbook he will enter each item or, if there be a daily cash sheet, he may enter there the total amount.
2. The sale will be entered in the sales journal, form No. 3 or No. 35 (pars. 7-7; 20-20).
3. The sale will be entered in the lot register form No. 34, (par. 20-17), filling in columns a, b, c and d.
4. The sale will be entered in the sales ledger, form No. 4, 32 or 33 (pars. 7-8; 20-15). An account will be opened for each sale.
5. The sale should be marked on the plat.
6. Collection tickler entries should be made (pars. 13-6 et seq.).

When entering lots on the plat, a code such as the following should be adopted:

╲ When a part payment is made
× When a contract is delivered
■ When a deed is given.

When making entries all particulars as to descriptions and as to schedule and selling prices should be checked with the greatest care.

25-14. On the Execution of the Contract.

When the initial payment is completed, the contract, with the accompanying notes, will be delivered by the sales manager to the accounting department.

The auditor will at once check the contract against the entries already made in the sales journal, the lot register and the plat and will complete the entries relative to each sale.

The amount of the contract should be debited to the purchaser's account in the sales ledger.

All contracts will be filed in numerical order.

25-15. The notes, each being numbered to agree with the contract, will be filed in special drawers in the safe and, if there be more than one note to a contract, they will be numbered serially.

From the sales journal should be posted in the commissions ledger all particulars of the commissions payable, crediting the respective amounts to the salesmen. The commission ledger will show the date, number of sale, name of purchaser and amount of commission.

25-16. While most of the sales will be represented by contracts, some may be in the form of mortgages, but this will not change the general procedure, as all sales must be numbered consecutively, regardless of whether they are paid for in cash or are in the form of mortgages or contracts.

Separate controlling accounts will be maintained in the general ledger for contracts and for mortgages receivable, so as to show at all times the amount of each of these classes.

25-17. As to Commissions.

The salesmen's commission will always be 10% of the sales price and the sales manager's commission will always be 3% of the same amount.

The salesmen's commissions will be payable in full when the first payment called for by the contract is completed, and all commissions earned will be paid weekly.

In no case will salesmen be allowed to withhold their commissions from money received from purchasers.

In no case is any commission due until the entire amount of the initial payment has been made by the purchaser.

If all items be posted as provided above, the unpaid commission due to each salesman will be shown on his account in the commission sub-ledger and can be checked against the sales manager's day sheets.

Each week a voucher-cheque will be drawn for the amount due to each salesman.

There will be strict enforcement of the rule that cheques will be given each Saturday for all commissions earned and payable up to the close of business on the preceding Thursday night. No interim payments or advances will be allowed in any case.

25-18. As to the Sales Manager's Commissions.

The commissions of 3% due to the sales manager will be handled in a similar manner. Each week there will be due him 2% on all the completed first payments received, i.e. one-fifth of the total amount paid to all the salesmen.

Three months later he will be entitled to 1% of the same amount.

Each voucher-cheque for commissions should show:

The sale number.
The name of the purchaser.
The amount of the sale.
The percentage of the total sale included in the voucher.

25-19. Lot Register.

(Note.) The following instructions are based on the use of form No. 34 (par. 20-17). If another form be preferred the instructions should be modified accordingly.

The lot register is the permanent record of the accounting department, showing all lots owned by the concern and the disposition of each one. It becomes the final proof, for the owners and for the government, that all lots have been recorded.

All entries should be made in ink and, as several lines are left for each lot, there is ample space to enter the names and addresses of all transferees and also to show changes in the schedule prices.

It is important that all lots and their original basic prices be entered at once, as these prices—determined at one time and in a uniform manner—will form the basis for ascertaining the cost price of each lot.

25-20. The Sales Journal.

The sales journal is, perhaps, the most important of all the land books, for it serves as the basis of all the financial records as to sales and commissions.

The first entry of a sale is made immediately upon the receipt of the initial payment or of the first portion thereof, and it is posted from the cash sheet and checked against the application form.

Other particulars are entered when the contract is received by the accounting department.

The cost price and the gross profit may not be determinable at that time, but they will be inserted later.

This journal will always show the total of completed sales to date. The difference between this amount and the total sales to date shown on the sales manager's day sheets will be the amount of the unclosed sales at any given time.

At the close of each month the columns will be ruled off and the totals posted to the appropriate accounts in the general ledger.

If the basic cost price of a lot be not known when the first entries are made, the entire selling price may be posted to the credit of a temporary sales account by a journal entry:

Contracts	$.................		
		To Sales	$............

and, when the basic prices are known the total of this sales account may be divided between "lot sales" and unrealized profits.

25-21. The entry for commissions will read:

Commissions	$..................	
To salesmen		
or		
Contingent commissions		$..................

When the cost price of each lot is finally determined it should be entered in the lot register and the journal entry will be of the form:

Contracts	$..................	
To lot sales (cost of lots sold)		$..................
Unrealized profits		$..................
Unearned interest		$..................

Each item in the commissions column will be posted to the credit of the salesman's account in the commissions payable sub-ledger.

Under the system adopted, no further notice need be taken of unearned commissions.

25-22. *The Sales Ledger (The Customers' Ledger).*

(Note.) The following directions are based on the use of form No. 77, below. If another form be used, the instructions should be modified accordingly.

The sales ledger will be kept in a "visible" form with sheets ruled as in form No. 77. A card will be made out as soon as the first portion of an initial payment is made and will be completed as soon as the executed contract is received by the accounting department.

On the back of each card space is provided for any entries it is desired to make as to the salesman, the commissions or other particulars.

The accounts in this ledger will be kept in alphabetical order, as the name of a purchaser is frequently the one thing of which he is sure. He may not remember the number of his contract or the description of his lot.

The appropriate "markers" showing the months in which instalment payments are due should be placed in position.

25-23. Sometimes certain contracts are set aside for a special purpose or are sold or hypothecated. Such separation or classification should be shown by the use of appropriate markers.

PURCHASER, Jones, Thomas		VENDOR.......Realty Co.
PROPERTY LOT 5 BLOCK 4		SUBDIVISION..Smith Tract
PRICE $10,000.	INTEREST 6%	PAYABLE Quarterly
TERMS 20% Cash, 10% quarterly		
TAXES PAID TO 1931		

Debits				Credits			
Date 6	Particulars	Principal	Interest	Date	Particulars	Principal	Interest
1931 June 29	Sale price	10,000.		1931 June 29	Deposit	500.	
Sept. 29	Interest $8,000		160.	July 14	Cash	1,500.	
Dec. 29	Interest $7,000		140.	Sept. 30	Cash	1,000.	160.
				Dec. 29	Cash	1,000.	140.

Form No. 77—Alternative form of "visible" contract ledger

Each account in the sales ledger will show the following facts:

Sale number
Name and address of purchaser
Date of contract or mortgage
Description of the property
Sales price
Terms of sale
Names of transferees
Name of salesman
Amount of salesman's commission.

The total of the balances of the accounts in this ledger must agree with the balance of the controlling account in the general ledger.

The accounts for contracts and for mortgages may be kept in the same cover if separate indexes or distinguishing markers be used.

25-24. *As to the Calculation of Interest.*

(Note.) These instructions as to interest apply only to cases in which the interest is calculated in advance in accordance with tables in chapter X. If other methods be followed the instructions should be changed.

In the method adopted, all interest on all contracts is calculated in advance and is included in the stipulated payments.

The amount of interest included in these payments varies with each payment and decreases with each instalment, while the amount of principal increases.

The tables furnished to the staff show clearly all such variations, but it is essential that the records show the number of the payment made by the purchaser, that is, the first, second, third, etc. payment falling due under the contract. This is provided for in the form of collection notice, form No. 18 (par. 13-4). The same number should be shown on the receipt, from which it may be entered on the sales ledger, where the interest portion of the instalment should be shown.

Whenever the books are closed, a machine list can be made of all the interest paid during the period on all contracts and there will be a journal entry such as:

Unearned interest	\$....................	
To interest receivable		\$....................

and the amount of this entry will be credited to the profit-and-loss account.

25-25. As to Cancellations, Forfeitures and Bad Cheques.

In the case of the cancellation of a contract, there will be a journal entry reversing exactly the original entry which brought the contract on the books, such as:

Lot sales	\$....................	
Unrealized profits	\$....................	
Unearned interest	\$....................	
To contracts		\$....................

Care must be taken to see that the first item agrees with the cost price when the sale was entered on the books. (Par. 11-6).

The second item will be the difference between the cost price and the principal amount of the contract, unless the contract has been running through more than one fiscal period and some of the unearned profit has been carried to the profit-and-loss account. In that case the amount must be reduced to equal the amount of unrealized profits on the particular contract which remains in the account.

The third item is the difference between the sales price and the total amount of the initial payment and all instalments.

The first item may be subject to change only when the property has increased or decreased in value, but even in such cases the clearest statement is made by adhering to the original cost price and, when necessary, making a second journal entry to care for the change in value, debiting "contracts" and crediting "cancellation profits," or vice versa, as the case may be.

Each cancellation, or forfeiture, must be entered on:

The lot registers
The sales journal
The customers' ledger
The plat

and on any other records upon which the original sale appears.

Entries for cancellations or forfeitures may be made in the sales journal in red ink, all such items being added at the end of each month and posted to the general ledger; this is more satisfactory than deducting them from the black-ink totals in the same record.

25-26. Bad Cheques.

If a bad cheque be received, a new cheque will be issued in favor of the bank with which the bad cheque was deposited, attaching the returned cheque to the voucher and charging the amount to contracts.

A memorandum of all such items will be kept by the auditor who will take all means possible to enforce collection.

25-27. The commission-payable ledger will contain an account with each salesman. As each contract is executed and entry is made in the sales journal, the amount of the commission will be posted to the credit of the salesman or salesmen concerned.

Each Saturday a cheque will be drawn in favor of each agent for the amount of commissions payable standing to his credit up to the night of the previous Thursday, and the amount of this cheque will be charged to his account from the cashbook.

A three column form of small ledger is provided for this record.

25-28. Life Insurance.

(Note.) If insurance be carried on the lives of purchasers, there should be instructions in accordance with the directions given in par. 17-4 et seq.

25-29. As to the Treatment of Cash.

In every case where cash is received from any source a receipt must be given in the form No. 74. (Par. 25-9)

Each receipt will be entered in the cashbook, which is columnar. Should the number of daily receipts render this difficult, the total daily receipts may be entered in the cashbook from the daily cash sheets, form 75 (par. 25-9) under a heading such as "Receipts No. . . . to No. . . . ." Attached to the last receipt entered should be an adding-machine list of all the items included in the total.

Each receipt on account of contracts must be posted promptly from the cashbook, or the daily cash sheet, to the individual account of the purchaser in the sales ledger.

All disbursements will be made by voucher-cheque and entered in a cheque register, from which the daily totals will be posted to the cashbook—or the cheques may be entered direct in the cashbook, as the treasurer may prefer.

It is of prime importance that the exact amount of collections shown on the cashbook be deposited in the bank.

25-30. As a protection against the improper issuance of receipts, all blank receipt books should be kept under lock and key and a record of their issuance should be kept.

When a book of receipts is filled and has been entered, it must be carefully filed. It is the book of original entry to which reference may be necessary at any time.

25-31. With the exception of the totals of the "miscellaneous" columns, the totals of all columns in the cashbook will be posted monthly to the general ledger.

Each item in the "miscellaneous" columns must be posted individually.

25-32. Reconciliations with Bank Statements.

At the close of each month, each bank statement must be reconciled with the cashbook in the usual manner. These reconciliations will be entered in a bound memorandum book in order to maintain a permanent record.

25-33. Petty Cash.

A petty-cash fund will be maintained on the imprest system, using a columnar cashbook in which to record all disbursements. If the amount of the fund remain constant, it is not necessary to reserve one side for receipts.

In no case may petty-cash disbursements be made from the general cash receipts, which must be kept intact and deposited in bank.

25-34. Disbursements.

A voucher-cheque of the form No. 17 (par. 12-4) will be used for all disbursements.

Each cheque will be made in duplicate and all supporting papers will be attached to the copy, which should never leave the office.

All vouchers must be numbered consecutively in the order in which they are entered in the voucher record.

If desired, a cheque number may be given to each one as it is paid. This plan simplifies the reconciliation of the bank account.

All paid vouchers will be filed vertically in the order of their voucher (not cheque) numbers. Originals and duplicates may be filed separately if desired, but the work of auditing is simplified if they be filed together.

25-35. The voucher register is of usual form and through the use of analysis books the classification shown in this record may be condensed to a convenient size.

25-36. Sales Journal and Lot Register.

(Note.) Description of the forms selected for sales journal and lot register (see chapters VII and XX) may be inserted in the manual.

25-37. Collections.

As a rule the number of lots offered for sale is large, numerous payments are to be made on most of the sales, and the purchasers will be widely scattered; therefore, it is highly important that full records of maturities and of delinquencies be kept.

The sales ledger is arranged on a "visible" ledger form and the cards provide for the use of markers to indicate various dates or periods. This ledger can be used as a tickler. However, there should also be a tickler of form No. 19. (Par. 13-6)

(Note.) Here insert the form of tickler selected.

The use of this tickler will obviate the necessity of preparing lists of payments accruing, except when such lists are required by officers.

Toward the close of each month, ten days in advance of due dates, notices of all payments falling due in the following month must be sent out. From the tickler will be prepared a notice for each purchaser who has a payment maturing, using form No. 18 (par. 13-4). When the number of purchasers requires it an addressograph will be provided for this work.

The same form, No. 18, will be used for purchasers who become delinquent. Each such notice should be marked with a rubber stamp "second notice". All notices will be sent out in "window" envelopes.

(Note.) The above directions apply to cases where interest is included in the face of the notes. Where other methods are followed the instructions should be changed accordingly.

25-38. Filing.

The accounting department will care for the filing of the following papers:

Contracts.
Mortgages.
Vouchers.

Contracts will be filed in numerical order in vertical or horizontal files. (See chapter XXVI.)

Mortgages will be filed in a similar manner.

Notes secured by the mortgages or contracts should be filed separately from those documents. All the notes relating to one sale will be clipped together; each will bear the serial sales number, and these notes will be filed in numerical order.

The notes relating to each sale, in addition to the serial sales number, will be numbered or lettered consecutively.

All notes should be filed in note drawers in a safe. Each month the notes falling due in the following month are to be withdrawn and placed in a convenient file for delivery when paid. All notes remaining unpaid at the end of a month will not be returned to the main file, but will be kept separate. If so kept, a complete audit of these securities can easily be made at any time.

25-39. Vouchers.

Instructions for handling vouchers should be included, embodying the procedure as suggested in chapter XII.

25-40. Trial Balances and Periodic Statements.

A trial balance must be taken from the general ledger at the close of each month.

Adding-machine lists should be taken monthly from all subsidiary ledgers.

The general trial balance should be arranged in such order as to form a fairly complete statement of the business of the month or of the period, as described in chapter XXIII.

(Note.) The manual may well close with a list of all books which are to be kept and a list of all forms which are to be used.

CHAPTER XXVI

Filing

26-1. Scope of Filing System.

An important part of the work in a real-estate office is the filing of the various papers and documents relating to the business so that each may be found without loss of time. A list of such papers would include deeds conveying property to the concern; abstracts of title and attorneys' certificates; title policies; mortgages receivable; contracts given by the concern; contracts assumed by the concern; selling contracts; options given and received; fire-insurance policies; tax receipts; sundry agreements, leases, releases, etc.

All such papers should be kept in a vault or safe with each class of documents numbered consecutively (each abstract having the same number as the piece of property to which it relates) and filed in order. A record should be kept in proper books, as already suggested.

26-2. Consecutive Numbering.

The advantages of using consecutive numbers in real-estate accounting are so great and so many that their adoption is in many cases essential. Let us first consider the instances where such numbers must be employed:

1. All receipts must be numbered consecutively, not only for convenience of record, but also as a safeguard against fraud. If several collectors (e.g., of rents) are employed, it is often wise to have the receipt books numbered in different series, each series being distinguished by a different letter and each letter being assigned to one particular collector.

2. All cheques, whether voucher cheques or otherwise, must be numbered, and, if several banks are employed, the cheques on each bank should be numbered consecutively.

3. All mortgages receivable should be consecutively numbered. This order usually affords the most convenient basis of arrangement for the mortgages-receivable ledger. This is one of the exceptions to the general rule that loose-leaf records should be arranged alphabetically.

4. Mortgages payable are treated in the same manner.

5. General contracts are usually arranged in order of the serial numbers and also chronologically.

6. Properties when bought should receive "property numbers" (par. 22-34), by far the most convenient means of reference in all book and record entries.

In some offices where serial numbers are employed, a letter of the alphabet is selected to indicate each series of numbers. For example:

Mortgages	receivable	will	be	A-1,	A-2,	etc.
"	payable	"	"	B-1,	B-2,	"
"	contracts	"	"	C-1,	C-2,	"

The numbering of contracts on subdivision properties is of especial advantage; but where the number of purchasers in any one subdivision is large, it is usually found convenient to arrange all sub-ledgers on a strictly alphabetical basis and to use indexes finely subdivided, say, 120 divisions to the alphabet.

26-3. Care of Securities.

With sales running into thousands and each one secured by a mortgage or contract, often accompanied by notes falling due at periods varying from a month to a year, special provision must be made for safe keeping as well as for quick reference. As sales are made they should be numbered consecutively when the first payment is completed, and the number then given to a sale should apply throughout all the records. It should be placed on the mortgage or contract and on each of the notes which relates thereto; it should also appear on all receipts given and on all entries in the books relating to that sale. Where a series of notes is given for a sale, each should bear, in addition to the sale number, its own serial number, from 1 up.

26-4. While purchasers' ledgers are usually arranged alphabetically, as the name of the purchaser is the principal means of identification, it is convenient to file the securities numerically. Any purchaser's notes can readily be found through the usual indexes, and numerical filing greatly facilitates the checking of missing papers.

26-5. Customers' Notes.

All notes relating to any one sale should be clipped together, filed numerically or alphabetically and kept in a vault. Toward the end of the month, those notes falling due in the succeeding month should be taken out and placed in a current file for quick reference.

26-6. Notes remaining unpaid should not be returned to the main file but should be kept by themselves, so that the amount of overdue notes may be readily verified. Care should be taken to see that payments made on account are endorsed on the notes. Such matters may seem elementary—and this may be said of most of the mechanical difficulties—yet failure to observe such elementary rules has led to as much trouble as has the non-observance of sound theory.

26-7. Contracts.

The basic idea which I desire to emphasize is the importance—the necessity—of having papers relating to a contract written in duplicate.

The contract itself should be printed in such a form that a duplicate can be prepared on a typewriter, both copies being signed by both parties. One copy is given to the purchaser; the other is placed in the files of the concern.

If the concern hypothecates its contracts, it is convenient to have each one made in triplicate. The third copy need not be executed but remains in the files when the duplicate is sent away. It should show the property conveyed and the parties executing the contract.

26-8. Each contract should be placed in a manila envelope and filed numerically or alphabetically, as may be decided, in a special document file.

Each envelope should be endorsed with the number of the contract and the name of the purchaser, and it is convenient to stamp each envelope with a rubber stamp like the following form, which tends to ensure proper entry on all records. The object in using an envelope is to secure in one place all papers relating to the terms of the sale and modifications of it.

Contract No. ....
Name ....
Wrote to purchaser.................................
Sent to ....
Entered in ....
Sales record
Sales ledger
Price book
Map

Superseded by No...................................
Deed No. ....
Dated ....

FORM No. 78—Filing envelope

26-9. Letters affecting the contracts, granting extensions, reserving adjoining lots, promising to exchange, etc., are often sent to customers. All such letters should be written in triplicate, one copy being filed in the correspondence file and the other in the contract envelope.

If for any reason a contract be taken from its envelope, a slip should be inserted to show the date, why and to whom the document was delivered.

Copy of any other paper affecting a contract should be placed in the envelope so that the agreement and all possible modifications or changes relating to it can be found instantly.

26-10. Receivables.

Where payments are represented by notes, special filing arrangements are required.

If there be one note for each sale, it may be filed with the contract as described above, but an appropriate and safer plan is to file notes numerically in a special file kept in a safe.

Where there is a series of notes for each sale, all the notes relating to one sale should be clipped together and the groups filed in numerical order in a special file in a safe. They should be handled in the manner described under collections in chapter XII.

26-11. All deeds of conveyance should be numbered serially. Where subdivision property is dealt with, a special deed for each division should be used, the names of the property and of the grantor being printed, and in such instances each subdivision should have its own series of numbers.

26-12. Abstracts of title should bear the numbers of the real estate to which they refer and should be filed in this order.

26-13. For renting purposes, where the list of houses remains substantially the same, it is frequently convenient to give each house, apartment or flat a serial number. In the case of a small tenement property, this method is particularly valuable; and where street numbers are lacking or confused, if the serial number can be stenciled or painted on some portion of the house, it gives the collector a double check on the description, which is frequently useful.

26-14. Sundry documents are perhaps the most difficult of all to file in such a way that any particular one may be found quickly when necessary. After trying several methods, I have adopted the following plan:

Each paper to be filed is stamped with a serial number and put in a manila envelope, which is stamped with the same number. The envelopes are then filed in numerical order, irrespective of the nature of the document.

A double card index is used, divided into two parts, each of which is indexed alphabetically. One of these parts is used for indexing the names of the parties mentioned in the various documents, and the other part is used for indexing the nature of the various papers filed, such as "agreements," "bills of sale," "escrow agreements," "timber leases," "affidavits," etc.

Each paper as it is filed is entered in both parts of this index; e.g., a bill of sale from James Young would be entered on a card headed "bills of sale" and filed under "B" in one part of the index, and it would also be entered on another card under "Young, James" and filed under "Y" in the other part of the index. Against the entry on each card would be shown the number stamped on the envelope in which the paper was filed.

This system takes little time, and by it a paper can be quickly found, if either the nature of the paper or the name of the maker be known.

26-15. Receipt to Be Given for Each Paper Removed.

A rule should be rigidly enforced that, when any paper is withdrawn from the files (whatever system of filing be adopted), a receipt therefor must be given to the person in charge of the file and be placed by him in substitution for the paper removed.

CHAPTER XXVII

Rental Records

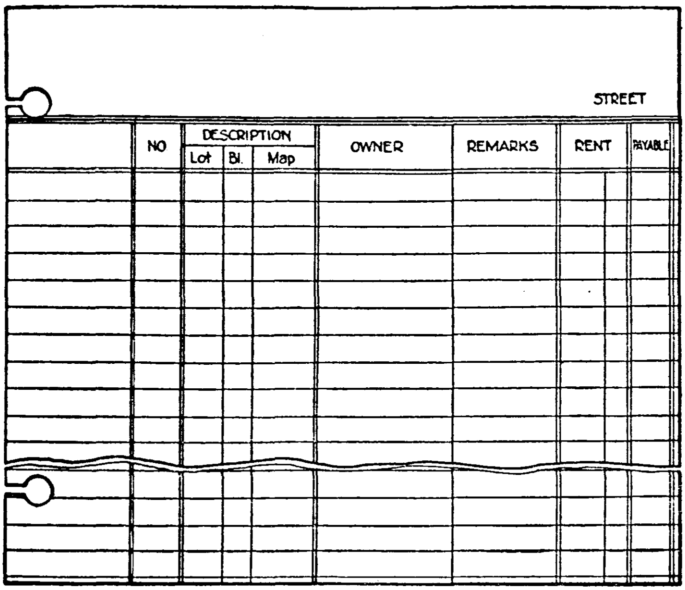
27-1. Record of Leases Given.

In offices in which it is possible to issue a considerable number of leases of the same general character, either of the methods outlined for the recording of deeds may be followed.

In most cases, however, the forms and terms of leases vary so greatly that such a record can not profitably be kept, and it is sufficient to number consecutively all leases given, as indicated in chapter XXVI, the original papers being filed accordingly and a simple index of all leases maintained.

In any event, whatever the nature of the property leased, it thereupon becomes rent-producing, and the lease should accordingly be entered by its serial number on the property ledger, the rent register and the rent ledger, with such details of the terms as may be desired. If the rent is payable for short periods, as once a month, no further record is required; but if the payments fall due after longer intervals, as quarterly, semi-annually or annually, there is danger that they may be overlooked unless some tickler record is made. In such cases the rent payments may be indicated on the rent record shown in form 79, or they may be entered on the same form as the interest receivable, but in such manner as to indicate to the bookkeeper that the entries refer to rents and not to interest.

27-2. The rent register (house address book) is invaluable for any office interested in a large number of houses for rent or sale. It is intended to contain a record of all rentable properties owned by the company and those in which it has an interest through contract, mortgage or as renting agent. The register may be bound or in loose-leaf form. In either case, it should be indexed alphabetically and each page should be headed with the name of a street or neighborhood in which the concern has rental property. This will provide a means for finding quickly all the houses on any one street and indicate the nature of the interest involved. As it contains a complete list of all rental properties in which the concern is interested, it forms the basis for the work of the rent department.



STREET

	NO	DESCRIPTION			OWNER	REMARKS	RENT	PAYABLE
		Lot	Bl.	Map				

Form No. 79—Rent record

27-3. The loose-leaf rent record or register shown in form 79 has been in use for many years and is self-explanatory. If houses are sold "on time," this fact is shown in the "remarks" column, and when the sale is completed, reference is made to the serial number of the mortgage, contract or option, and a red ink line is ruled through the entry.

27-4. If the number of rental houses is large, it may be advantageous to prepare a rent-register board similar to that used for recording the occupancy of rooms in a hotel. This board should be large enough to hold a card for each house on the rent register and so constructed that a smaller card may be inserted in front of and covering up the lower part of the larger one.

Each of the larger cards (which may be 1 x 3 inches) bears along its upper edge the address of a house and its nominal rent. These cards are arranged on the board in order of streets, of rental values or of owners, as may be most convenient. When a house is rented, the date, the name of tenant and particulars as to the rent are entered on one of the smaller cards (which may be ½ x 3 inches and of a different color from the larger cards), and this card is then placed on the board in front of the larger card in such a way as to leave exposed the address of the house. A board so arranged shows at a glance every house offered for rent, all houses that are vacant, and all houses that are rented, with the name of the tenant and other particulars.

27-5. *Rent-receipt Books.*

The same principles that obtain with reference to the general receipt book apply with equal force to rent-receipt books. The main difference is that the latter are properly of such a size that collectors can easily handle them. (See form 80.)

An unscrupulous tenant may claim to have made more payments than appear on the cashbook, and he may produce in support of his claim a receipt which has been changed as to amount, date or name. The best evidence against such a claim is the carbon copy of the receipt.

THE ALPHA LAND COMPANY.
Reno, Nevada

$.................. ....193....

Received of ....

.... dollars

being rent of No...Street

for .... to ....193....,

....Collector

(This receipt made in duplicate)

Form No. 80—Rent receipt

MONTH OF __________

No.	NAME	NO. OF HOUSE	ADDRESS	LED. FOL.	RENT	ARREARS BROUGT FORWARD	DATE		LED. FOL.	RECEIVED		ALLOWANCES	AMOUNTS WRITTEN OFF UNRECOVERABLE	ARREARS CARRIED FORWARD
							Due	Paid		Amounts Current	Amounts Outstanding			

FORM No. 81—Rent report

27-6. Report of Rent Collections.

The rent report shown in form 81 was designed by English accountants to be used in this country for property owned in England. A copy was transmitted to the home office. In such cases or wherever the chief office is at a distance from the property, this form is valuable for tabulating the large number of details to be reported. Its practical value here, however, is impaired by the difficulties which attend the collection of arrears of rent, owing to "exemption" laws and the general leniency toward delinquent tenants which is found in so many states.

All offices employing rent collectors should demand from them regular and uniform reports of their daily collections. For this purpose the report shown in form 82 has been found convenient. It may be printed on inexpensive paper, bound in pads of fifty each, and perforated for filing.

27-7. Rent Cashbook.

In an office handling many rental houses, it is usually convenient to keep all matters relative to rents out of the general cashbook. An ordinary cashbook may be used for this purpose. All rents received, taken direct from the rent collectors' reports, are entered on the debit side. On the other side are entered all payments made on account of such houses for repairs, insurance, etc.

Where such a book is kept, it is well to deposit all receipts from rent, as shown therein, in a separate bank account, and to charge against this account all sums paid out for repairs, etc., using for this purpose a cheque differing from that used for the general cash account. At the end of each month the balance of this account is transferred to the general fund. This method eliminates from the general cashbook a vast amount of detail which is shown to better advantage by itself.

27-8. Rent Journal.

The journal entries required for a rent department are few and simple. An ordinary journal with three or four columns meets every requirement. Such entries relate almost entirely to the issue

REPORT OF RENTS COLLECTED

____________________191__

BOOK NO.	STREET NO	STREET	TENANT	OWNER		

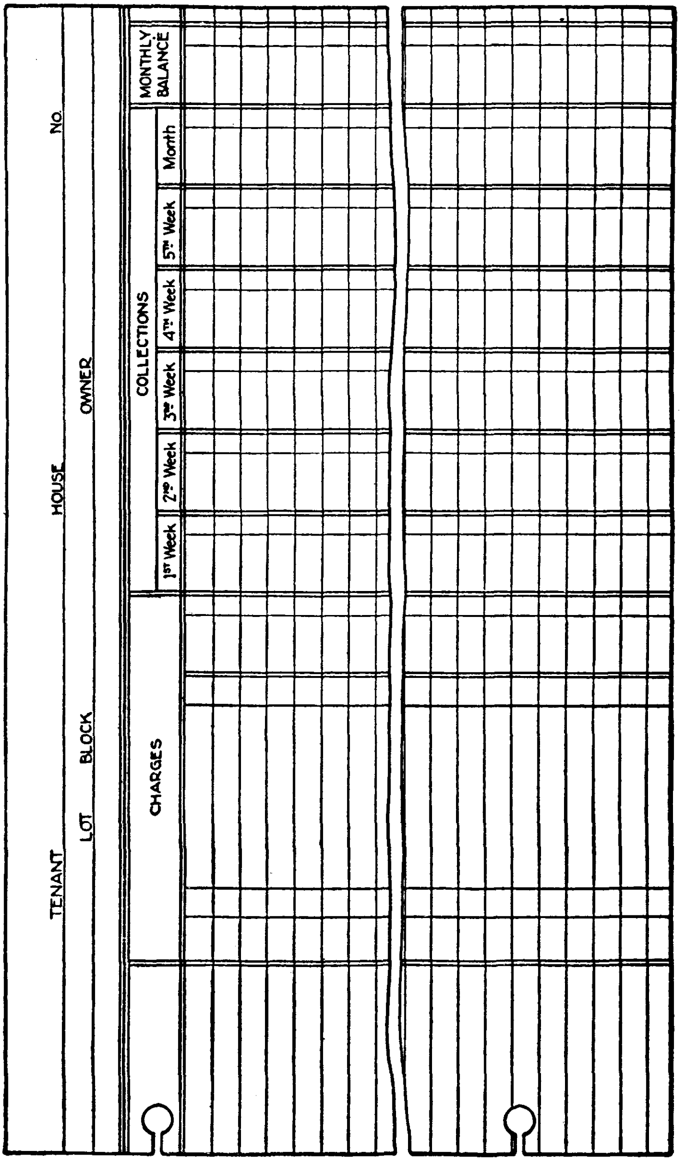
FORM No. 82—Rent collector's report

of material and to brokerage charged against clients, as outlined under "rent ledger."

27-9. Rent Ledger.

The rent sub-ledger shows the gross and net rent received from each building on the rent roll. It is employed when the items in these accounts are too numerous for the space provided in the property ledger.

No special form of ruling is required for the rent ledger, but each account should be headed with the street address of the property to which the account refers. It should be credited with all rents collected from that property and debited with respective expenditures for repairs, water rent, etc. The total of the balances of all the accounts in this sub-ledger will agree with the difference between the rents account and the repairs account in the general ledger. If it be desired to keep in the property ledger a permanent record of the income from each piece of property, the balances from the rent



FORM No. 83—Rent ledger

OFFICE NO.	TENANT	BALANCE BRT. FORWARD	RENT JANUARY	PAID IN JANUARY	BALANCE JANUARY 31	RENT FEBRUARY	PAID IN FEBRUARY	BALANCE FEBRUARY 28	RENT MARCH	PAID IN MARCH	BALANCE MARCH 31
1	Robinson, J. L.	$ 40.00	$ 40.00	$ 80.00		$ 40.00		$ 40.00	$ 40.00	$ 60.00	$ 20.00
2											
3	Bryan, James	100.00	100.00	100.00	$ 100.00	100.00	$ 200.00		100.00	100.00	
4											

Form No. 84—Tabular rent ledger

ledger may be transferred periodically to the appropriate spaces in the property ledger.

27-10. Where there are many tenants paying rents weekly, the rent ledger shown in form 83 has been found serviceable. This ledger gives a continuous record of each house, and one page will hold the records of several years, thus serving to exhibit changes of tenure, amount of repairs made, the tenant for whom they were made and regularity with which rents have been paid.

27-11. For the record of rents collected from such properties as office buildings and apartment houses, a tabular form of rent ledger, such as form 84, may be used. Simple addition of the several columns for each month gives:

1. Balance uncollected on the first of each month.
2. Total rents due from tenants each month.
3. Total rents paid by tenants each month.
4. Total rents unpaid at the end of each month.

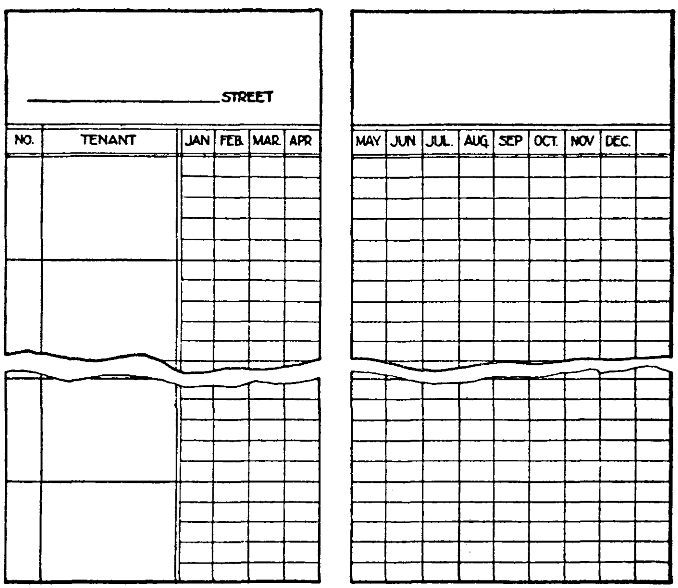
In order to contain a year's record of monthly rents, the tabular ledger will require some forty columns. The convenience of handling such a book is greatly increased by using "short leaves," which will allow a book 29 inches wide to be used.

27-12. Collector's Pocket Rent Ledger.

One of the difficulties experienced by all rent collecting agencies is that of keeping the collectors informed as to the condition of each account, particularly rents in arrears.

For this purpose many offices use a card system similar to that employed by furniture dealers and others for their sales on the instalment plan. One such card is maintained for each house and on it are entered the rents as they are paid. These cards are then sorted, and each day, or other short period, certain numbers of them are given to collectors, indicating to each the houses at which he is to call. As these calls are made, the collector turns back the proper cards to the office. The record is therefore necessarily divided and is seldom all in one place. It occupies considerable space and is subject to loss and disarrangement.

In order to avoid these difficulties, the "collector's pocket rent ledger" (form 85) was devised, the use of which requires no explanation. If printed on thin paper, a book about 4½ x 6½ inches and about one-half inch thick will contain the records of one thou-



FORM No. 85—Pocket rent ledger

sand houses for one year. The space between any two heavy horizontal lines is devoted to one house or building, the blue lines indicating the first, second, third, fourth and fifth weeks of each month. Each street has one or more pages allotted to it, and by arranging the streets alphabetically, the book can be kept in alphabetical order throughout its life. Being primarily for the use of the collectors, the book contains no other record than that of rents collected.

CHAPTER XXVIII

Auditing

28-1. In general, the audit of accounts of subdivisions and of cemeteries follows the recognized lines of procedure, and I mention here only matters which are peculiar to land accounts or are of special importance.

28-2. Care should be taken to see that the methods pursued are adequate and satisfy at the same time the demands of accountancy and the requirements of the treasury department. It is assumed that the usual verifications will be made as to securities claimed, as to outstanding liabilities and as to the general accuracy of the books.

28-3. Among the more important matters are the following:

1. Cost of property and improvements.
2. Existence of obligations assumed by the concern in the acquisition of any of the property.
3. Proper allocation of cost to individual lots.
4. Verification that all sales made have been properly entered.
5. Analysis and verification of profits and of realized and unrealized profits as shown on the profit-and-loss statement and the balance-sheet.
6. Examination of overhead expenses, especially where several subdivisions are handled in one office.
7. Examination of commissions, both earned and contingent.
8. Examination of commitments relative to development, buildings and, especially, maintenance.
9. Examination of contingent liability under securities which have been sold.
10. Where more than one tract of property is involved, the property accounts should be analysed.

11. Depreciation charged should be checked, and an examination should be made to see that none has been omitted and that the rates charged are reasonable.
12. Verification of all cash collections and the means taken to ensure proper entry of such items.
13. Rent collections should be carefully verified and tests made against the receipts given by the rent collectors and also of the amounts reported as received from those collectors.
14. Tax assessments should be scrutinized and any reductions in these assessments should be noted. If they indicate reduced values of property it may be necessary to comment on them in the report.
15. Taxes paid should be checked to see that neither omissions nor duplications have occurred.
16. Mortgage accounts should be examined to see that mortgagors have been charged with all taxes, interest and other charges for which they are responsible.
17. In the case of subdivisions, sales should be tested against the selling price lists to ascertain whether the nominal prices have been obtained or not.
18. If there be instalment sales the method of charging interest should be examined and tests made as to the accuracy of calculations.

28-4. *Inventories.*

In effect, the list of unsold lots is the inventory of a subdivision or of a cemetery and, if proper records have been kept, this is one instance in which an auditor can properly certify as to correctness of inventory by verifying the list of such lots.

28-5. *Securities.*

All receivables can be, and should be, checked with care, for it will often be found that the files still contain notes which have been paid and other notes which bear no endorsement showing payments which have been made on account. There may be notes relating to sales which have been cancelled.

It is especially important to examine for such errors all securities which have been hypothecated but on which the concern still makes collections.

28-6. Liabilities.

All records of property acquired, whether by purchase or exchange, should be examined to ascertain that all liabilities are entered on the records—particularly to see whether such liabilities have been assumed by the concern or not.

28-7. Contingent Liabilities.

All available means should be used to ascertain whether or not any contingent liabilities exist, especially in offices where mortgages or contracts are discounted or sold, for, almost invariably, the purchasers of such obligations require the endorsement of the concern on all notes which it sells—a condition which sometimes leads to heavy contingent liabilities or losses.

INDEX

(The numbers indicate chapter and paragraph. For example, 3-6 means chapter 3, paragraph 6.)